James Brearley & Sons Limited

Risk Management Arrangements

Purpose

The purpose of this document is to set out the risk management arrangements within the company and describe the firm's overall approach.

Risk Management Framework

The Board is ultimately responsible for risk management, as well as forming its own opinion on the effectiveness of the firm's risk management framework and established processes. The Board is responsible for setting the firm's risk strategy and relevant policies to include its overall risk appetite.

The firm's risk management framework is designed to be proportionate to the nature, scale, and complexity of its activities. The firm is relatively small, conservatively financed, does not trade on its own account, is not geographically widespread and provides mainstream investment services of dealing, investment management, custody and administration. The firm's management and executive board members are closely involved in the day to day running of the business so that they have first-hand knowledge of the risks facing the business.

Given the nature, scale and complexity of the firm it does not operate a dedicated Risk Management Committee nor has a Chief Risk Officer, rather it has allocated responsibility for risk to one of the Executive Directors, David Hannis, being appropriately documented in his Statement of Responsibilities. He manages the risk framework, centred around the maintenance of the firm's Risk Register, and designed to allow the Board to:

- maintain a firm-wide view of the firm's exposure to risk and
- to allow it to challenge any risk management practice that it believes is not adequate in ensuring that the firm's identified significant risks are being actively managed.
- To allow the Board to define the risk tolerance of each significant risk, be it Lower Risk, Medium Risk or Higher Risk, this in turn determining the firm's overall risk appetite.

The firm's risk management approach is mainly directed at risk assessment and evaluation. These elements are carried out through the firm's risk management process. The risk management process covers all the firm's identified significant risks, of whatever nature. The risk management process is important because it means that the firm can demonstrate a structured and systematic approach to the management of risk designed to identify, assess, manage and monitor the significant risks that exist within the firm and ensure that the Board is appropriately updated on their standings.

Risk Identification

The firm's senior managers have identified those significant risks from whatever source that they believe could have a material effect on the firm's business objectives. This list is revisited annually by the Director responsible for Risk Management, David Hannis, and the Board to make sure it is current. Managers are responsible for reporting on any new or growing risks (emerging risks) to the business or our clients, in their monthly operational reports to the Board or via the additional assurance reports forming the Board's Reporting Calendar.

Risk Assessment

Each significant risk is assessed to establish its magnitude and whether the controls which mitigate the risk reduce the risk to an acceptable level. Each significant risk has been allocated an owner who is responsible for maintaining their allotted significant risk control sheets. The owner provides the Board with an update on each of their significant risks on at least an annual basis, as part of the Board Reporting Calendar. This is duly recorded in the firm's Risk Register which is maintained by the Director Responsible for Risk, David Hannis, who works closely with each risk owner, his involvement also helping to achieve a degree of consistency in the risk assessment process.

Risk Register

The firm's Risk Register consists of a summary of those significant risks that the firm has identified as it being exposed to, be it that this could result in harm to the financial markets as a whole, the firm or its clients, each being supported by a dedicated control sheet. A headline definition of each significant risk is detailed in the summary, along with its inherent and controlled assessment score as determined by its risk owner. These are broken down at both a Business and Client level where the risk poses a direct impact on our clients. Each significant risk has a Board defined risk tolerance status be it Lower, Medium or Higher Risk, the risk owner being responsible for considering whether the risk remains within its classification and bringing to the Board's attention should a significant risk move outside of this.

Each significant risk has been allocated to a particular classification area being:

- Operational Risk- The risk of loss resulting from inadequate or failed processes, people or systems. This has been further broken down to show those risks linked to Human Resources, Systems, Regulation or are more General in nature.
- Liquidity Risk- the risk of being unable to meet financial obligations as they fall due.
- Business Risk- the risk related to the macro-environment and the competitive environment within the industry.

Risk Scoring Process

The firm has determined those risks applicable to the business. Consequently, it has identified 25 Significant Risks. Each risk is then documented in a risk assessment and reviewed for consistency of approach.

The risk assessment details the risk identified, the inherent risk as a combination of impact and likelihood resulting in an Overall Risk score. Once the Risk Control Measures have been determined the impact and likelihood is reassessed resulting in a Controlled Risk score.

Impact/Financial

1. Minor-Less than £50,000
2. Some impact but small- £50,000-£150,000
3. Moderate-£150,000-£250,000
4. Large-£250,000-£500,000
5. Major-Greater than £500,000

The **likelihood** of risk is scored as follows:

Likelihood/Frequency

1. Rare -Greater than 10 years
2. Unlikely- Within 5-10 years
3. Possible- Within 2-5 years
4. Likely- Within 1-2 years
5. Almost certain- Within the next 12 months.

Each risk is assessed for its impact on not only the firm, but in line with the Investment Firm Prudential Requirements i.e., the market as a whole and the clients of the firm.

All significant risks are summarised in the Risk Register (a copy of this is incorporated into the OFAR document). This details the overall risk appetite of the firm (currently totalling £1.92m) and the 'Additional Own Funds Requirement (AOFR)'.

The firm's risk appetite is formulated through a structure of a Risk Score Card and, more specifically, seven risk score bands. Each risk score band has been allocated a range of scoring (i.e., 1-4,5-8, etc) with each band also allocated a capital impact amount (e.g., £60,000, £120,00 etc). Each amount is then shown as a % of our Core Tier One Capital.

A risk score is allocated to each Significant Risk which determines the amount of capital to be set aside for each risk, as described above.

The Risk Appetite of the firm is considered by the Board on an annual basis. Given that the firm's business model and strategy is to continue to operate in known markets and jurisdictions and with well-established services and products, the firm's current risk appetite is therefore for risks that the firm has faced for a long period and has experience of managing. As might be expected from the strategy, after being individually evaluated, the harms to the firm and to clients are assessed as posing an acceptable level of risk to the firm's capital as this is consistently maintained at a significantly higher level than is needed to fulfil the strategy.

The Director Responsible for the Risk Management Process has documented the structure in a Risk Management Policy which is formally reviewed by the Board on an annual basis.

Each senior manager of the firm is responsible for identifying new emerging risks or significant changes to the existing risks and reports on them as such in line with the Board reporting schedule. The Risk Assessments are subject to formal review in line with the reporting schedule as detailed in the Risk Management Policy.

The Board is satisfied with the firm's structures and operations and believe they are appropriate for a firm of its size, nature and complexity.

Material Harms and mitigants

The firm has considered the risks to which it faces and determined there are 25 Significant Risks. Each risk is assessed for its impact against clients, the market and the firm.

19 of the risks have been adjudged as being of a 'Lower' categorisation with no further capital required to be set aside.

5 risks (Governance, Money Laundering, Financial Crime, Liquidity & Capital and Profitability) have been classed as 'Medium' risk as defined by the firm in its Risk Management Policy. As such the firm has determined it is appropriate to provide additional capital within its 'Own Funds Threshold Requirement' of £300k.

1 Risk (Suitability) has been classed as 'Higher' risk as defined by the firm in its Risk Management Policy. As such the firm has determined it is appropriate to provide additional capital within its 'Own Funds Threshold Requirement' of £120k.

The total additional capital within its 'Own Funds Threshold Requirement' is £420k.

Where the risk assessment has determined additional capital to be ring fenced, the firm has taken a prudent approach and not offset any K factor requirement capital where this may overlap.

In satisfy the disclosure requirements detailed in MiFiDPRU 8.2 we provide the following detail: -

Profitability (impacting on the firm's Own Funds Requirement)- the risk is stated as, 'As a result of poor decision making by the Board, over commitment to expenditure or financial losses arising as a result of a lack of operating controls or fraud, the company operates at a loss.' The inherent risk assessment has determined a risk score applicable to the firm of 5 (impact) X 5 (likelihood) = 25, risk to clients of 0 X 0 = 0 and risk to market of 0 X 0 = 0, resulting in a total inherent risk score of 25. After consideration of risk controls/mitigants the residual risk assessment determined a risk score applicable to the firm of 5 (impact) X 1 (likelihood) = 5, risk to clients of 0 X 0 = 0 and risk to market of 0 X 0 = 0, resulting in a total residual risk score of 5. Consequently, the risk is classified as 'medium' requiring a further £60k capital being ring fenced. In mitigating this risk, the firm has created a business model which results in a high level of repeat income and so the firm's income is relatively consistent and not reliant on market driven trading volumes. Costs are also managed carefully with Board approval required at a particular level of expenditure.

Concentration Risk- the risk is stated as, "That as a consequence of being heavily exposed to a financial institution be it in the capacity as a market counterparty or holder of the firm's or its clients' money, or as a result of losing an overly large client, the firm comes under financial pressure ". The inherent risk assessment has determined a risk score applicable to the firm of 5 (impact) X 5 (likelihood) = 25, risk to clients of 1 X 1 = 1 and risk to market of 0 X 0 = 0, resulting in a total inherent risk score of 26. After consideration of the risk controls/mitigants the residual risk assessment determined a risk score applicable to the firm of 2 (impact) X 1 (likelihood) = 2, risk to clients of 1 X 1 = 1 and risk to market of 0 X 0 = 0, resulting in a total residual risk score of 3. Consequently, the risk is classified as ‘lower” as such requiring no further capital to be ring fenced. In mitigating this risk, the firm has access to a wide range of market counterparties, actively monitors each of the banks with which client and the firm’s money is deposited and is not overly dependent on one or two large clients.

Liquidity - the risk is stated as, ‘Company unable to meet financial obligations or regulatory capital requirement due to lack of available funds.’ The inherent risk assessment has determined a risk score applicable to the firm of 5 (impact) X 3 (likelihood) = 15, risk to clients of 0 X 0 = 0 and risk to market of 0 X 0 = 0, resulting in a total inherent risk score of 15. After consideration of risk controls/mitigants the residual risk assessment determined a risk score applicable to the firm of 5 (impact) X 1 (likelihood) = 5, risk to clients of 0 X 0 = 0 and risk to market of 0 X 0 = 0, resulting in a total residual risk score of 5. Consequently, the risk is classified as ‘medium’ requiring a further £60k capital being ring fenced. The main mitigating factor is the firm’s strong balance sheet and large cash balances with no bank borrowings. This is further strengthened by the firm being highly profitable.

Business Strategy

The firm has developed a clearly defined strategy for growth.

Each year the Board considers the company’s Strategy & Development Plan for the forthcoming financial year.

The company’s Strategy & Development Plan has a number of components to it. It establishes a number of Strategic Priorities to achieve the company’s Business Objective. Those Strategic Priorities are to: nurture existing lines of business; seek to increase the profitability of existing lines of business; deliver high quality services and maintain a professional reputation in the marketplace. Underpinning the Strategic Priorities are a number of Initiatives which include but are not limited to develop plans to procure new clients; continue to build long-term ethical relationships; continue to deliver high quality services and to invest in technology to improve its client service.

At its monthly Board Meetings, the directors receive details of the various sources of income derived from the firm’s Assets under Management and Assets under Administration with the contribution of those revenue streams to its fixed and variable costs. The Board also reviews the company’s income and profit figures against its budgets and prior year performance.

The company’s strategy has a strong bias towards ensuring its staff are competent to support it in building long-term ethical relationships.

The firm enjoys a strong financial position with substantial cash reserves to support it. The firm has no plans that will require any meaningful capital expenditure to facilitate the Strategy and Development Plan.

November, 2024.