VWM CONSULTING LTD (VWM)
VWM Consulting Ltd is not a member of a group or network.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Content of the ICAAP report

1. Executive Summary

The purpose of the Executive Summary is to provide an overview of VWM's ICAAP methodology and results. Please also see the firm's Business Plan for further background information.

The document's purpose is to inform the Board of the ongoing assessment of VWM's risks, how VWM intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

The VWM Board confirms that VWM has adequate capital for it's size and complexity of business. VWM manages its capital to ensure that it is able to operate as a going concern and exceed any minimum externally imposed capital requirements. The capital consists of equity attributable to the equity holders comprising issued share capital, share premium account, reserves and retained earnings.

Cash is kept in a separate euro denominated bank account to meet VWM's minimum capital requirements. The euro account holding means that VWM are not exposed to currency risk fluctuations. An overdraft facility of £25,000 had been arranged with Royal Bank of Scotland to alleviate any potential cash flow problems – however given the recent positive cash flow of the business this has been cancelled.

The VWM Board also confirms that all VWM's regulated entities are covered by the assessment. VWM Consulting Ltd is not a member of a group or network.

VWM enjoys a relatively strong strategic position as the firm has already transitioned to a fee based model and provides added value services in the form of Discretionary Investment Management. The balance sheet is relatively strong and the firm enjoys a relatively high level of recurring income. Typically in excess of 90% of expenditure and this figure has been rising.

Cost are relatively fixed (although there is flexibility in relation to Directors salary levels) and in extremis in the laying off of staff members.

The findings of the ICAAP analysis:

The amount of capital VWMs considers that it should hold compared to its capital resource requirement (CRR) 'pillar 1' calculation; (Euro 50,000)

The Board considers that VWM's risk management process is adequate for the size and complexity of the business. Our external compliance consultants (The Compliance Department) will review these on an annual basis.

The Board considers that VWM has adequate resources over its planning horizon taking into account the dividend policy and the potential impact of an economic downturn.

VWM has adopted the minimum capital adequacy requirement for credit, market and operational risk – since we consider that it the event of an orderly wind-down of the business this could be completed with a low level of overhead since assets are held externally on a CUSTODIAN. In addition in the past year the number of clients has been significantly reduced (broadly halved in number) in the run up to RDR.

To meet our duty of disclosure the firm submits annual returns to Companies House and to ensure timeous disclosure up to date details are also published every six months on the company’s website.

Table itemising components of the Pillar 1 (to be provided for comparison purposes) and VWM's Pillar 2 capital figures;

	Pillar 1 (optional)	**ICAAP**
	Minimum capital £	Firm's Pillar 2 capital £
Credit risk		**20,000**
Market risk		
Operational risk		**20,000**
Fixed Overhead Requirement (FOR)	**20,000**	**20,000**
Pillar 1 total	**20,000**	**20,000**
Pillar 2 risk X		
Pillar 2 risk Y		
Pillar 2 risk Z		
Pillar 2 total	**20,000**	**20,000**
Adjustments (diversification if claimed etc)		
Additional capital to cover stress testing	**20,000**	**20,000**
ICAAP capital	**80,000**	**80,000**
Current total Tier 1 capital	**133,000**	**133,000**
Surplus	**53,000**	**53,000**

· it is considered that additional work is required in building a suitable model of the firms capital with the ability to stress test this model under various economic and operational scenario.

· The ICAAP is reviewed, challenged and approved by the VWM Board annually, in August, at the end of the firm’s financial year.

2. Background – the ICAAP Process

VWM’s ICAPP has been prepared by David Thomson, Compliance Officer with the assistance of our external compliance consultants (The Compliance Department) and our Accountant Alistair Marr.

VWM's Board is responsible for the risk management framework, business planning and capital management.

See Appendix B for details of relevant policies, procedures and systems used by VWM to identify, manage and monitor its risks in accordance with its risk appetite.

3. Statement of risk appetite

VWM intends where possible to hold more capital than is necessary to meet minimum compliance standards. Since VWM sees this additional capital as being useful in meeting its objectives of medium term growth through merger or acquisition. In addition VWM is not run to maximise short term returns but has the aim of generating a longer term capital asset attractive to potential buyers. Accordingly VWM seek to build in capital buffers in excess of minimum regulatory requirements.

The statement of risk appetite is reviewed annually by the VWM Board.

4. Business strategy

VWM intends to grow through organic growth rather than by acquisition.

New Product Lines

Holistic Financial Planning service based on Cash Flow Forecasting was introduced with effect from 2011. This is working well with the majority of clients providing us with full information which greatly assists in determining capacity for loss and generating good client outcomes.

New markets

Little change is anticipated to markets although our intention is to target more selectively than in the past and to avoid unprofitable areas of business. We have withdrawn from a number of unprofitable clients in the last couple of years. This has freed up time to provide better quality services to remaining client. There has however been a complaint from one client which may have been triggered by the withdrawal of service but may have originated in any event.

New Distribution Channels

We intend to market more to existing clients in order to gain referrals and also to a narrow group of professional connections. Again this is working well with enhanced levels of client satisfaction.

Mergers and Acquisitions

We do not see the potential for mergers and acquisitions as an avenue for VWM to grow relatively quickly.

Specific details on VWM's business strategy / model is provided by way of Appendix A.

5. Material risks

Material risks identified by VWM

See Appendix B

The main area of risk for VWM is Credit Risk. This comprises counterparty risk (Pershing) and advisory fees.

Regarding Pershing, the risk is that the counterparty is not able to pay amounts in full when they fall due. Some comfort is provided in that this is a subsidiary of BNY Mellon and as a large UK custodian will receive a high level of monitoring from the FCA.

Credit Risk

Regarding advisory fees, the risk is that a client does not pay the amount due for services provided. This risk is mitigated by the number of clients fees that fall due at any one point in time. The bulk of recurring fee income is payable on a monthly basis. The risk of non-payment is also reduced by the nature of the clients as they are all typically high net worth individuals.

VWM revenues also include annual management charges received from clients based on a percentage of client assets under management. These charges are charged directly to the clients portfolios and remitted via various CUSTODIAN providers and therefore the credit risk relating to this income is low (Pershing excepted – see above). We have built in a 3 month notice period into our Terms of Business to mitigate this risk.

The risks relating to amounts due from product manufacturers as a result of legacy renewal commission streams has been managed by virtue of those clients having had their service contracts terminated in an orderly fashion. We have now turned the tap off that income stream ourselves. In doing that we have given those clients access to new advisers via IFA search engines (such as Unbiased).

Interest Rate Risk

Currently VWM does not have any borrowings.

If borrowings were required we would endeavour to mitigate the interest rate risk by utilising a cap facility.

Liquidity Risk

VWM manage all cash to ensure that VWM has sufficient liquid resources to meet the continued operating needs of the business. Funds in excess of FSCS limits are kept in separate banks to mitigate against the possibility of a run on any one bank. In addition an overdraft facility of £25,000 had been put in place to meet any potential short term cash flow problems. However given the strong cash flow position of the VWM this has been cancelled.

Funds are maintained in call cash accounts rather than notice accounts. Investments that may fluctuate with markets (such as equity investments) are NOT held.

The liquidity risks of major debtors (custodians and life companies) are assessed and payment terms minimized as far as possible – to improve cash flow and minimize liquidity risks. We have reduced the time taken for Pershing to pay fees to VWM.

Cash balances are maintained by the (mainly) state owned Royal Bank of Scotland and are monitored on a daily basis to ensure intra-day liquidity and cash flow projections are undertaken to monitor the future effect on liquidity.

VWM does not lend and therefore does not accept collateral.

As the capital requirement is to hold Euro 50,000 a separate Euro cash account is maintained to mitigate any possible currency risks.

We have given consideration to splitting our banking, for example by moving the Euro 50,000 to a separate bank in order to bring the assets below the FSCS £85k compensation limit. However we are relatively relaxed about this as our bankers RBS are largely state owned.

Company bank accounts are checked daily.

Ultimate client liquidity is relatively good as clients have resources to pay fees however contracts can be terminated at short notice. (90 days).

Market Risk

VWM is indirectly subject to market risk as a significant element of income is dependent on the value of client funds under management. The risk is mitigated by the asset allocation strategy adopted which ensures that clients have well diversified portfolios with exposure to any one asset class limited. Funds are normally invested in daily traded funds.

Operational Risk

VWM is dependent on a number of key individuals. The loss of these individuals would have a detrimental effect on the business. The business has now introduced Key Man Insurance to provide cover for the main business writers.

VWM is dependent on outsourced custodian administration. Multiple custodians are used so that VWM staff are familiar with them and assets could be transferred at relatively short notice.

VWM require to ensure that all of their staff (particularly Advisers) are competent and hold Statements of Professional Standing. The firm operates a T&C regime to ensure that all advisers remain competent.

The VWM Board conforms that these risks are within VWM's risk appetite.

Professional Indemnity Insurance

VWM uses Professional Indemnity Insurance (PII).

The excess on the policy is £15,000 and that VWM has sufficient capital resources to meet these excesses.

VWM consider that the insurer (Liberty Mutual) is a good credit risk (A) from Moodys, with a good payment history and has sufficient liquidity to survive the period between submitting a claim and it being settled.

UCIS are excluded from the policy – however VWM have taken steps to mitigate the potential exposure by requiring clients to sign an acknowledgement that they are aware of the risks of the products recommended and also that they are aware that there may be a total loss on these investments. Again exposure is limited to no more than 5% of a clients' overall portfolio.

Advice risk

This is limited to £15,000 per claim, the balance being underwritten by our PI insurers. We have further lines of defence as follows:

We have strong procedures around the key elements of advice including data gathering, risk profiling, investment management and recommendations.

These processes and advice are reviewed independently at least once a year.

6. Capital planning and Stress and scenario tests

This section provides details on VWM's projections of its capital resources and capital requirements. These projections may include a forward projection of 3 to 5 years (or a shorter time period if more appropriate) and should be consistent with VWM's business plan.

This initial projection would form the 'base case' for the capital planning analysis. A projection of past and forecasted income streams would also be useful.

This information would provide an indication of the level of capital planning, management and cashflow analysis. This section should include a statement of VWM's operating philosophy on capital management and how this links up with VWM's ICAAP.

Using the base case as a starting point VWM should use stress tests to consider how it would perform under stressed conditions. This section would set out the stress tests undertaken and the extent to which the stressed conditions that VWM has selected meet the FCA's definition of a severe recession or relevant business downturn / event, i.e. of a severity that occurs once in a 25 year period. VWM should provide an indication of how it would manage its business and capital alongside meeting its minimum regulatory requirements, VWM's total capital held can not be less than the minimum Pillar I figure. Where mitigating actions are relied upon, the results of the stress tests should be provided on both gross and net of controls and credible manageable actions.

The details of the stress test such as the methodology and assumptions used should be included in an appendix.

Management actions following the stress and scenario tests should be articulated and the following should be considered:

o quantitative impact of management actions;
o sensitivity analysis / testing of management actions; and
o justifications for why these mitigating actions are realistic.

BIPRU 2.2.65
The *FCA* expects an asset manager to consider the impact of economic factors on its ability to meet its liabilities as they fall due. An asset manager should therefore develop scenarios which relate to its strategic and business plan. An asset manager might therefore consider:

(1) the effect of a market downturn affecting both transaction volumes and the market values of assets in its funds; in assessing the impact of such a scenario, an asset manager may consider the extent to which it can remain profitable (for example, by rapidly scaling down its activities and reducing its costs);

(2) the impact on current levels of capital if it plans to undertake a significant restructuring; and

(3) the impact on current levels of capital if it plans to enter a new market or launch a new product; it should assess the amount of capital it needs to hold, when operating for the first time in a market in which it lacks expertise.

7. Challenge and adoption of the ICAAP

The ICAPP has been prepared by David Thomson Compliance Oversight Officer. Our Compliance Consultants have provided guidance on the risks faced by VWM and mitigating actions which can be taken to reduce those risks. Our Accountants have provided financial input to the ICAAP. No economic scenario modelling has been used.

The ICAPP report has been reviewed and challenged by the Board who will be responsible for its maintenance going forwards.

It is our intention to utilize the ICAAP when reviewing strategy, introducing new services and in connection with our pricing of services.

VWM intend to introduce further risk mitigation measures such as Key Man Insurance.

In conjunction with the Firms Accountant VWM intend to build a model which would stress test our capital adequacy under various scenarios.

Wind down of Company

Because of the extensive use VWM makes of custodians the Directors consider that the wind-down of the company and the transfer of business to an alternative firm would be relatively straightforward. Accordingly the directors now consider that full wind-down could be achieved within 3 months (previously 6 months) and that maximum capital resources to achieve this would be in the region of £100,000 (previously £200,000).

David Thomson Kenneth Welsh

1st June 2015 1st June 2015

Last Reviewed
1st June 2015

APPENDIX A – VWM Consulting Ltd – Business Plan

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VWM Consulting Ltd
Business Plan

Executive Summary

Description of Business

VWM Consulting Ltd was formed in 2005 from the merger of Anderson Welsh with Craighall Investments. Currently VWM Consulting Ltd (VWM) have around £75m under "stewardship" held by existing clients. The firm comprises 3 advisers including 1 investment manager supported by 2 full time and 1 part time administrative staff. A number of functions (Compliance, Accounting, Human Resource Consultancy and IT) are outsourced.

The longer term aim will be to build sustainable value in the business through funds under management and recurring fees together with a reputation for financial planning and wealth management excellence.

The firm enjoys a rare combination of discretionary investment management coupled with a high quality bespoke service which competitors would find hard to match.

Service Summary

VWM Consulting are personal investment planning advisers – we tend not to focus on the corporate market - other than pensions. Unusually we also provide discretionary investment management of client portfolios. Our target market is clients with £500,000 or more to invest or where they have the potential to generate a minimum of £5,000 income initially.

Advice on sophisticated tax planning initiatives at one extreme and mortgage planning at the other are currently outsourced to associates.

Business Strategy

The basic business aim is to build a sustainable business where recurring fee income broadly meets annual running expenses providing a solid foundation for sustainable, saleable value. Ancillary to this objective is a strategy to ensure that the business remains attractive to potential purchasers in terms of quality of business. To this end the business intends to operate on a fully fee rather than commission basis. In addition consideration is given to succession planning and professionalizing the business to help ensure that it remains attractive to potential purchasers and is not overly dependent on the existing team of Directors.

Reason for Conversion to fees

The Sandler report and the FCA are steering IFAs and wealth managers to fee based advice and professional ongoing asset management. In turn this is producing a relationship driven rather than transactional business model.

Using asset allocation comparison techniques to persuade clients to "convert" their existing assets significantly larger sums may be generated since here the whole of client's portfolio is targeted rather than just new monies or the weak funds that obviously required attention. In turn the client receives an asset allocation tailored to their risk profile and ongoing active investment management. In addition the clients invariably receive greater diversification portfolio and risk reduction. In short a “win-win” scenario. This is also an excellent model for taking on the business of retiring IFAs or Consultants able to bring a client bank.

If existing funds were converted in full to discretionary management this would potentially increase the annual fee income by 0.5%. In addition a one-off fee of 1% could be charged for facilitating the conversion; adding further non-recurring income. As well as establishing a diversified, relatively stable income stream in-house investment management would also enhance the VWM wealth management proposition and facilitate the winning of new clients and mandates generating further non-recurring and recurring income.

In addition VWM continue to receive commission income for certain forms of business – particularly protection insurance. The firm also has access to a mortgage adviser where introductory fees are received.

VWM have recruited David Thomson who has experience of marketing a very similar strategy at Towry (Scotland) (the former Aitchison & Colegrave business) and thus would be able to project manage the entire process from end to end. David also enjoys the added advantage of being one of the UK’s leading fund of funds managers and therefore would be able to ensure a high level of investment performance from the portfolio(s) going forward.

The initial aim is to provide discretionary fund of funds management to SIPP, SSAS, Bonds (onshore and offshore), custodians, trustees and of course corporate pension funds.

To date VWM have successfully delivered the service offering to existing clients.

Financial Summary

Fees and Income

See Appendix 1 for details of what is provided to clients for and fees charged.

Cash Flow Projection –

A key aim is for the business to be self financing from recurring income. Estimated breakeven could be as low as £35m but would be sensitive to the level of initial income. A sustainable breakeven would be in the region of £40m assuming only modest additions thereafter. **Thus breakeven is achievable from existing funds under stewardship** with the potential for significant profitable growth thereafter. VWM believe this is a reasonably conservative estimate assuming a realistic level of initial and recurring income and should be readily achievable.

Market Research

Market Trends

There are a number of beneficial market trends.

The average wealth is increasing with more and more potential clients increasingly having wealth of £100,000 or more to invest.

Increased levels of taxation mean that more clients are falling into the tax net and have to take action / seek advice to minimise the tax take. Particularly IHT.

While the boom bust of equity markets still looms large in the minds of many investors clients are becoming increasingly minded to consider non cash investment strategies.

Competitors

Our main competitors are IFAs, Traditional Stockbroking firms and the large wealth management organisations, eg. Barclays Wealth management.

IFAs
VWM enjoys an advantage over most other IFA organisations in that we are directly able to provide discretionary investment management. Most other IFAs either work on an "implement and review" basis or outsource discretionary investment management either to a firm of stockbrokers or utilise a multimanager solution. The only other firm in Glasgow providing this service (Towry) appears to be coming under pressure as a number of key staff have departed in recent years and investment performance has slipped.

Traditional Stockbrokers
Most traditional stockbrokers focus on their area of expertise UK stocks and bonds and do not create diversified (risk efficient) portfolios. Service standards can also be highly variable. While on many levels this type of business should be easy to target the limiting factor is often that portfolios are pregnant with CGT and are consequently difficult to restructure.

Wealth Managers
While a number of boutique organizations exist doing a good job. This area of the market is increasingly the province of the large banks who often consolidate a number of the regional broking businesses. However by applying their economies of scale to the business much of the personal service has been lost and there should be opportunities for us to pick up business. In terms of raising the profile of wealth management the big banks are a double edged sword – on one level they are raising the profile of wealth management to a wide audience and on the other we believe that they do not enjoy a high level of service delivery.

Business structure

Management Team

The management team is comprised of the three Directors and one Practice Manager. Day to day administration management is provided by an Office Manager. VWM is also keen to bring in external management expertise either through consultancy or through a non executive director.

Business Location

The business is located in central Glasgow. This provides ready access to a wide range of potential clients and professional connections in the central belt of Scotland. The cost base is lower than a number of areas meaning that VWM can provide very competitive cost structure – particularly to London based clients. In addition we are able to punch above our weight in meeting with any fund managers passing through Glasgow as we are a high profile organization in central Scotland.

The downside is that servicing London clients is more expensive and problematic. However with the increased use of technology and access to low cost airlines this is less of a problem than it would have been in the past. Notwithstanding VWM makes use of the facilities provided on a UK wide basis by the Institute of Directors in order to substantiate our London presence.

Business Organisation

The business is owned by its Directors with the Managing Director having a controlling stake in the business. The main business functions are divided between the Directors and Office Manager as follows:

Ken Welsh	**David Thomson**	**Lisa Johnston**	**Elaine Wallace**
Financials	Investment Management	Operations	IT
Strategy	Compliance		Human resources

At this stage of the company's development business organisation is fairly straightforward.
A number of functions are outsourced – since to maintain in-house expertise would not currently justify the costs involved – this is likely to remain the case in the foreseeable future although there may be a case from bringing some of the accountancy functions in-house.

The Board provides strategic input with all significant decisions being taken by one or more of the Directors. Day to day office administration is delegated to the Office Manager. There is an Investment Committee to oversee the investment strategy and management with day to day decisions being made by the Chief Investment Officer.

While administration is broadly centralised each of the two main client facing directors are assigned a dedicated administrator to ensure continuity and ownership in dealing with clients.

Marketing & Sales

SWOT Analysis

STRENGTHS	WEAKNESSES
• Combine advice with management • Low costs structure • Investment management capability • Few legacy issues • Client agreed remuneration • Existing high quality clients • High quality service culture • Room for expansion from current premises	• Highly reliant on a few key individuals • Lack of London presence • Reliant on CUSTODIAN platforms • Low capital base
OPPORTUNITIES	**THREATS**
• Main Glasgow competition is weak • Wealth Managers providing poor service • Opportunity to diversify service offering • Trustee Investment Act • Older IFAs exiting the industry	• Increased regulatory burden- particularly capital requirements • Polarisation of advice market leaving VWM in the middle ground.

Competative Analysis

VWM is highly competitive due to a combination of factors. Firstly the cost base is relatively low as administration overheads are minimized. The use of CUSTODIANs not only reduces the administration burden but allows VWM to tap into the economies of scale provided by the CUSTODIAN providers in order to ensure that our offering remains competitive in terms of overall cost and deliverability.

Target Customer Groups

Increase the referral rate from existing clients
Look to take on the client bank of retiring/exiting (small) IFAs.
Target professional connections and other potential introducers
Target potential corporate connections

Customer Demographics

Longer term customer demographics are good with household wealth increasing steadily.

Sales Strategy

Pricing & Positioning

Our basic pricing and position mix is to match or slightly undercut existing pricing but to offer a significantly above average service offering to attract and retain clients.

In-depth Marketing Plan

Potential Services

Fund of Funds Unit Trusts / OEICs
The principal aim would be to establish initially one and subsequently a suite of fund of funds unit trusts/oeics suitable for use in a wide variety of investment situations including smaller portfolios. Accordingly value is added by asset allocation, market timing and by fund selection. Additional value is added by negotiating lower fees than could otherwise be obtained by clients acting on their own. Among the main advantages of Strategic Asset Management fund of funds is that the consultants and clients have greater access to the managers of the fund.

Discretionary Fund Management Services
A fee based Discretionary Fund Management Service (DFMS) has been introduced, designed to ensure that clients accumulated investments such as pension funds, onshore and offshore bonds etc. (which cannot readily be moved to SIPP or more traditional discretionary management service) receive the detailed and pro-active attention they deserve. The DFMS provides the following benefits:-

- An investment management style tailored to suit the client’s own specific attitude to investment risk and liabilities which is agreed when they join the service and can be changed as market conditions dictate. Compare this with the “one size fits all” approach of most so called managed funds.
- Regular monitoring of client’s funds to ensure that they are meeting pre-agreed objectives and offering the best growth or income prospects each year.
- A proactive approach to fund switching where we believe such switches are in line with the clients objectives and will improve overall portfolio performance.
- The expertise Investment management who will be available whenever required to offer additional advice or alter the investment strategy to suit changing circumstances.
- This service will be particularly attractive for those who have accumulated significant funds but have been disappointed by the investment performance to date. It may be that the existing funds cannot be transferred to an alternative provider because of contractual penalties.

Custodians and Fund Supermarkets
The same DFMS service can now be provided relatively efficiently through a variety of custodian platforms such as Pershing Standard Life, Cofunds, Abbey and Skandia U-Select. Or link the fund of funds to these platforms.

Marketing

Initiatives will be undertaken to raise the profile of VWM fund of funds at large particularly through Centres of Influence (COIs) such as lawyers, accountants etc. However marketing is likely to be limited in the initial stages to existing clients and therefore marketing expenses will be modest.

Provide Service to External Third Party Organisations and Professionals
The fund of funds / investment management expertise and systems could be utilised to provide services to COIs such as Final Salary schemes, GPPs, Solicitors and Accountants. David Thomson has considerable expertise in this area combined with a library of relative presentation materials.

Solicitors and Accountants
VWM already has contacts from these sources and again regulatory change is forcing firms to review and upgrade their investment capabilities.

CUSTODIANs
CUSTODIANs and Platforms now account for the vast majority of unit trust sales in the UK. While CUSTODIANs provide IFAs and clients with considerable flexibility they still need the time, expertise and the inclination to make best use of the added flexibility. There is considerable opportunity to introduce a fund of funds services to this area or link a fund to the platform(s).

CUSTODIANs are essentially web-based platforms that enable IFAs to consolidate the reporting of an individual's investment holdings – including life policies, SIPPS, Bonds, Mutual funds, PEPs ISA and direct equities. CUSTODIANs enable IFAs to swiftly put together IHT and CGT planning together with more routine valuations. CUSTODIANs therefore give IFAs the ability to improve their services and administration whilst reducing costs by an estimated 30% - 40%. In the process some argue that CUSTODIANs have the scope to improve the image of IFAs.

Pension Schemes
This is a huge potential market which groups such as Citbank are keen to target however there is vast, largely untapped market at the medium to smaller sized end of the market where portfolios are typically in the range of £5m to £50m. Again both regulatory change and weaker markets are forcing Pension Trustees to review their investment arrangements and a fund of funds approach, or fund of funds combined with other assets can provide an ideal solution.

Advertising and Promotion

To date VWM has undertaken no indirect advertising and promotion. (All business development has been via Directors contacts and clients).
The company is however trying to build PR through its contacts with Scottish journalists and articles in the media.

Appendix A

WEALTH MANAGEMENT FEE SCHEDULE

At VWM Wealth Management Ltd we are paid by a fee. Whether you buy a product or not, you will pay us a fee for our advice and services. If it is possible for us to receive a commission from the product provider when you buy a product, we will pass on the full value of that commission to you in one or more ways. For example, we could reduce our fee, reduce your product charges, increase your investment amount or refund the commission to you.
Any incidental or trivial trail commission (typical less than £200 per annum) will belong to us.
We will discuss your payment options with you and answer any questions you may have. We will not charge you anything until you have agreed how we are paid.

Financial Strategy Report Fee

This is a flat fee agreed at outset with you at the time of our appointment. It entitles you to ownership of the Strategy and covers the cost of VWM's Intellectual Property which is our expertise and experience.

Our fee will be based upon the complexity of your affairs; the value we add; thetime we spend and the regulatory risk we assume in dealing with your affairs. Our fees typically range between £1,500 and £15,000. The actual cost for provision of this service will be confirmed in our Financial Strategy Report Fee Agreement.

Implementation Fee

This fee covers the cost of implementation of your Financial Strategy by our team and the professional responsibility we incur for this advice.

Our fee for this service is £100 per hour or a flat fee agreed prior to implementation work commencing.

Ongoing Service Fee

This fee covers the ongoing review and monitoring service, key components are illustrated in our VWM Service Standards (enclosed).

Our tiered charging structure is detailed in the table below:

Investment Amount	Ongoing Service Fee
1st £750,000*	1.25%
Next £1,250,000	1.00%
Next £3,000,000	0.75%
Next £5,000,000	0.50%

*Minimum initial investment amount £250,000

Other:

For additional services not covered under the above fees an hourly rate may apply as follows:

Hourly Rate

Financial Planner	£225 per hour
Investment Manager	£225 per hour

Para-planner	£95 per hour
Administrator	£50 per hour

We will agree the rate we will charge before beginning work.

VWM Wealth Management Ltd is not currently registered for VAT. Some of our fees may be subject to VAT in the future and we will advise you of this accordingly.
We will provide an estimate of how much in total we might charge and will not exceed any such estimate without first checking with you.
If you subscribe to our discretionary fund management service a separate agreement outlining the details and cost of the service must be agreed and signed.

Appendix A2 – Discretionary Investment Management

Background

Investment management is centralised in Glasgow where greater access is available to fund managers and groups visiting Scotland coupled with a pool of investment talent and office premises. As well as marketing and managing the fund of funds David Thomson would provide discretionary investment services and advice to the Advisers/Consultants. Marketing of the service is undertaken primarily by the Consultants with full support from David Thomson who is available to meet with clients in any location. The service operates on a model portfolio basis which helps to ensure that all clients are treated fairly and that administration is kept to a minimum.

Ancillary objectives

- Generate higher levels of diversified fee income to smooth income flows and increase the company's market multiple;
- Increase Funds under management;
- Minimise cost base; eg. Utilise cost effective CUSTODIAN platforms or Unit Trusts.
- Pro-active fund management - to maximise risk adjusted performance and improve client returns and satisfaction.

FCA & Compliance Requirements

Two IMC qualified members of staff are required. IMC is broadly comparable to FPC and examination dates are readily available. Currently the Chief Investment Officer is IMC qualified and one of the advisers (Lisa Johnston) is sitting her IMC examinations.

It is likely that PI Insurance cover will have to be increased in line with funds under management. In addition FCA fees are 2 basis point of funds under management, .ie £200 for every £1m under management.

Investment Administration

Investment administration might be handled by a number of means however the two most likely scenarios are either a CUSTODIAN or a Fund structure (outsourced Unit Trust / OEIC).

Advantages of CUSTODIAN
Ease of administration
Tap into economies of scale

Disadvantages of CUSTODIAN
Income leakage to 3^{rd} party administrators
Material changes to fund strategy are problematic unless a bulk dealing facility is in place.

Interrelation within VWM Consulting

Investment management should be an integral element of VWM. As such the service is one of a number marketed by the Consultants / Advisers. David Thomson would develop close working relationship with Consultants who in turn form an integral element of the relationship with the clients - frequently meeting them and discussing their needs as required. While the David Thomson would be available to speak to clients this would generally be done in conjunction with the relative Consultant.

System Requirements – in addition to Microsoft office and the Internet

1st Software - Is a client database and record management system. The system works on a modular basis. At this point we only make limited use of its facilities as extensive training would be required in order to utilise 1st to its full potential.

Financial Express Analytics - A system for monitoring and analysing historic fund performance. Financial Express is a monthly subscription system costing @ £6,000 pa This system is required to help analyse funds for purchase and their subsequent monitoring. It also anlyses and provides marketing information on VWM Portfolios. (**essential**)

APPENDIX B – Material Risks Identified by VWM Consulting

Introduction
This programme attempts to identify those areas where our ability to:
• comply with the requirements of our regulator, the Financial Services Authority, and
• provide our clients with the highest level of professional advice and service may be adversely effected by events. It then goes on to outline procedures for minimising the possibilityof those events occurring and/or the detrimental effects that they may cause.

As part of the analysis of the event, they have been prioritising in the following way:

Priority 4 indicates that the particular risk area is unlikely to occur and/or the event would not be unexpected.

Priority 3 indicates that the risk management control is straightforward, does not require constant monitoring and the consequences of failure are not serious e.g. Maintaining contact with employment agencies.

Priority 2 indicates that failure in the risk area could result in a breach of FCA rules e.g. failure to follow guidance when carrying out a regulatory review.

Priority 1 indicates that the quality of advice could suffer as a result of a failing in the risk area e.g. business not being written in a compliant manner. In respect of those events that have been categorised as 1 or 2, a detailed procedures has been circulated to all staff.

This Manual will be kept under constant review, and as time passes it will be amended to reflect changing circumstances. This report describes how VWM Consulting Limited are addressing the risk that their customer data may be lost or stolen and then used to commit fraud or other financial crime. We have examined the threat of data theft by criminals seeking to infiltrate our systems by hi-tech means such as ‘hacking’ into computer systems and found that using password and encryption for any server access offers a satisfactory level of security.

The FCA defines our responsibilities in this area in the Principles for Businesses. Principle 2 requires that ‘a firm must conduct its business with due skill, care and diligence’ and Principle 3 that ‘a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems’. We believe that we have done so. In line with these principles, our senior management are responsible for making an appropriate assessment of the financial crime risks associated with our customer data. Rule 3.2.6R in the Senior Management Arrangements, Systems and Controls sourcebook (SYSC) requires us to ‘take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system and for countering the risk that we might be used to further financial crime’. This is the minimum standard to meet the requirements of the regulatory system.

Our risk monitoring programme is integrated with our Anti Money Laundering procedures and our pre-sales documentation.

Heat Map of ICAPP Events – Impact – Probability – Mitigation

Key: 1 = High Impact / Probability   5 = Low Impact / Probability

Events	Risk Area & Priority	Risk Factors	Risk Management Controls	Audit Responsibility
Changes to the business.	Acquisitions Impact 1 Probability 5	Unresolved regulatory breaches and liabilities(eg. Pension transfers) Fitness and Propriety of incoming directors, partners and senior managers Unresolved complaints liabilities. Fitness and competence of authorized advisers.	Due Diligence audit prior to acquisition, including a comprehensive audit of all compliance and individual training and competence records.	Ken Welsh Lisa Johnstone David Thomson
	New permitted activities or areas of business Impact 3 Probability 3	Quality of advice Conducting business beyond authorization Business written does not meet compliance standards.	Regular file checks, role-plays, together with a review of KPIs and other T&C records. Regular board reports on results of investigations.	Kenneth Welsh Lisa Johnstone David Thomson
	Key Personnel Impact 2 Probability 2	Loss of Chief Executive Financial Controller, Compliance Officer, CIO, Investment Manager, Designated Pensions expert. Maternity and Paternity Leave New joiners	Protective and valid employment contracts / and or contracts for services, including at least three months notice period. Other staff who can provide temporary cover. Defined recruitment procedures.	Ken Welsh David Thomson Lisa Johnston Ken Welsh assisted by external compliance consultants

Events	Risk Area & Priority	Risk Factors	Risk Management Controls	Audit Responsibility
	Legal technical and regulatory legislation and / or rules Impact 2 Probability 1	Technical.	All advisers to include the maintenance of their knowledge in their training plan and in the CPD activities	Ken Welsh Lisa Johnstone David Thomson

	Impact 2 Probability 2	Regulatory	Additionally, those staff members who are not regulated but who play a key role in the advice giving process will carry out similar CPD activities. All those members of the firm who have controlled function responsibilities, to include the maintenance of their knowledge in their training plan and in their CPD activities.	David Thomson
Financial Systems	Regulatory and statutory requirements Impact 3 Probability 1	Maintaining capital adequacy Commission receipts Commission claw-backs Bank account reconciliation Cash Flow Client Money Requirements Cheque mandates Adviser handling of cash	Directors carry out checks as part of the management accounts procedures. 2 person authorization of deals and cash transfers All staff informed of the "Client's cheque received in error procedure" Sufficient signatures to ensure the smooth running of the office. All advisers made aware that they are not permitted to handle cash	Ken Welsh Lisa Johnstone David Thomson Elaine Wallace
Advisers	Commission / Fee Earnings Impact 3 Probability 4 Recruitment Impact 3 Probability 5 Advising Clients Impact 2	Associates commission /fee terms encourage biased product / supplier sales. Bogus qualifications Bogus experience Advising /tansacting business for which the firm or the	The client file checks will specifically ensure that all products sold are both suitable and affordable. Sight of original documents only Comprehensive references in support of c.v. Comprehensive compliance and	Ken Welsh Lisa Johnstone David Thomson Ken Welsh Lisa Johnstone David Thomson Ken Welsh David Thomson

	Probability 5 Money Laundering Impact 1 Probability 4 Fit & Proper 2 Probability 5 Administration Impact 2 Probability 5 Financial Promotions Impact 4 Probability 5 Effectiveness Impact 4 Probability 2	adviser is not authorized. Giving bad advice Product / company bias such as CUSTODIAN Advising on overseas business for UK clients Requirements of legislation not met Fitness & Propriety failure Sitting on applications thus exposing the firm to liabilities consequent on market movement or the death of the client. Issuing unauthorized advertisements and mail shots Underperformance	T&C monitoring. Use of template reports Regular training together with monitoring of identity verification Annual F&P checks including credit checks Effective supervision of advisers. All staff informed of the advertising and mail shot procedure. Monitoring of performance	Lisa Johnston David Thomson David Thomson assisted by external compliance consultants David Thomson Ken Welsh Lisa Johnstone David Thomson Ken Welsh David Thomson Ken Welsh David Thomson Lisa Johnstone
Informing the Regulator	Regulatory Returns Impact 3 Probability 5 Notifiable Events Impact 3 Probability 4	Omitting to make required returns Omitting to inform the regulator	Prepare calendar of required returns. Be aware of events which must be notified	David Thomson
Regulatory Reviews	Review Impact 2 Probability 5 Returns Impact 2 Probability 5	Failing to carry out and complete review in accordance with guidance Failing to make returns on time	Be au-fait with guidance and monitor progress in implementing it. Be aware of requirements	David Thomson assisted by external compliance consultants
Regulatory Inspections	Initial Response Impact 2 Probability 3	Inability to respond to information requests quickly	Ensure all compliance records and files are up to date	David Thomson assisted by external compliance consultants

	Remedial Action Impact 1 Probability 5	Inability to react to regulator's requirements	When regulator requests remedial action it is carried out speedily.	
Client Relationship	Effective Client servicing Impact 3 Probability 3	Failure to carry out regular reviews and servicing when contracted to do so.	Relating to orphan clients who have not received a TOB since 1988, a new TOB is issued when informing the clients of the re-allocation of adviser.	Ken Welsh Lisa Johnstone David Thomson
Other Issues	Natural disasters – See Separate Disaster plan Impact 2 Probability 5	Loss of premises and records through fire, flood etc. Procedures drafted	Disaster Plan to be updated Internet and Email user guide in place	David Thomson Elaine Wallace
	Data Protection Impact 1 Probability 2	Loss of computers, databases and electronic records	Regular data backup	David Thomson Elaine Wallace
	Impact 2 Probability 4	Loss of information resulting from upgrade of computer systems	Use of specialist IT consultants	
	Impact 4 Probability 4	Failure of computer back up	Regular testing of back-up	
	Impact 4 Probability 3	Loss of paper records	Files to be maintained in a neat & orderly fashion. Scanning.	