PILLAR 3 DISCLOSURES

SIS Ventures Ltd (‘SISV’ or ‘the Firm’)

October 2020

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1. Background

The purpose of this document is to set out the Pillar 3 disclosures of SIS Ventures Limited as at 31st March 2020.

The disclosures will be reviewed annually and, if appropriate, more frequently. Disclosures will be published as soon as practicable after the publication of the Annual Reports.

The information contained in this disclosure has not and is not required to be audited by SIS Ventures external auditors and does not constitute any form of financial statement. The information should not be relied on in making any judgement on the entity.

Regulatory context

The Capital Requirements Directive ('the Directive') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through 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 FCA 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 assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

In preparing this document, SISV is permitted to omit certain disclosures and, where disclosures are not required, they have been omitted. Albeit SISV has not omitted disclosures for reasons set out in BIPRU 11.3.5 and 11.3.6.

2. Scope and application

SISV is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU limited license firm for the purposes of the FCA's capital requirements rules. It is an investment management firm and as such has no trading book exposures.

The Firm is not a member of a regulatory group and so is not required to prepare consolidated reporting for prudential purposes.

Firm overview

SISV is a wholly owned subsidiary of Social Investment Scotland and commenced trading in April 2018. The business of the Firm involves primarily discretionary impact investment management services for professional clients; investing client money predominantly in early stage companies (illiquid assets) with the aim of generating social and financial returns for clients regardless of market conditions.

3. Management Objectives

The entities risk management objectives and policies are supported by a risk management framework which establishes the governance arrangements and the principles of how risk is identified, assessed, quantified, monitored, and controlled. The key risk management responsibilities are set out below.

Risk management

SISV is governed by its directors who determine its business strategy and risk appetite. They are also responsible for creating and maintaining governance arrangements along with designing and implementing a dynamic risk management framework.

The directors determine how the risks SISV faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The board meets on a quarterly basis and discuss financial forecasts, regulatory capital management, business strategy, and risk management. They manage the Firm's risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules with the aim to operate a defined and transparent risk management framework. These policies and procedures are reviewed regularly and are in line with industry best practice.

The directors have identified that business, operational, market, concentration, reputational, insurance, and credit risks are the main areas of risk to which the Firm is exposed. Quarterly the directors formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the directors identify material risks, they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

Material Risks

The execution of the business strategy does present certain risks, and it is the role of the Firm to seek to identify appropriately the risks it faces, assess their materiality and if possible, mitigate these in line with risk appetite. Based on its businesses of investment management, the following are deemed to be potential risks for each business:

Risk	Investment Management
Market	✓
Credit	✓
Operational	✓
Concentration	✓
Regulatory	✓
Governance	✓
Impact	✓

The Firm has also identified risks which are not applicable or relevant to its business, listed below:

Risk	Investment Management
Liquidity	×
Securitisation	×
Insurance	×
Pension Obligation	×
Residual	×
Interest Rate	×
Business	×

Compliance and operational controls were designed with the above risks in mind, and the very active involvement of the principals in the operation of the business should significantly mitigate the risks.

The following discusses some of the more material risks the Firm faces (also analysed in greater detail in the business plan) in conducting its business:

- A prolonged market downturn and/or poor investment performance may hurt the Firm's ability to generate revenues/profits and attract new clients.
- Failure of key outsourcer counterparty or its inability to deliver services at the agreed upon target quality might harm the Firm's reputation and client confidence.
- Regulatory breaches would also have an adverse impact on the Firm's reputation.
- Regulatory changes might require adjustments to the Firm's operating practice and procedures and might even force a change in strategy.

Any of the above-mentioned risks, could cause damage to the Firm's reputation and financial position.

In addition, the Firm is aware that it might also run the risk of customer claims or legal action should it fail to comply with the terms of its investment management agreements, which might lead to financial loss. However, the Firm believes that the investment management agreement, in conjunction with discussions with clients directly will provide adequate disclosure about the nature of investments under consideration and their risk profile.

4. Capital Resources

The entity's capital resources are set out below:

	Notes	£
Core tier 1 capital		
Permanent share capital	1	75,000
Share premium		-
Audited reserves		362
Tier 2 capital		-
Tier 3 capital		-
Total capital resources		75,362

Notes

1. Share capital is the permanent, allocated, called up and fully paid ordinary share capital
2. The audited reserves include the profit and loss account, and any carried forward losses.

5. Compliance with BIPRU regulatory requirements

Regulatory capital

SISV is small and its business is not viewed as complex in line with guidance within the FCA Handbook. It carries no material market or credit risk since it is a BIPRU €50,000 firm with no trading book. As a BIPRU 50K firm and a BIPRU limited license firm for the purposes of the FCA's capital requirements rules, the minimum capital requirement is the greatest of the base capital requirement of €50,000; the sum of its market, credit, and other risk requirements; and the 13 week fixed overheads requirement ("FOR").

We find that the firm's projected regulatory capital above exceeds the capital resource requirement ("CRR") pillar 1 calculations from the ICAAP analysis set forth in the table below. In addition, we find that the projected regulatory capital exceeds that calculated by the pillar 2 calculations as well. The firm holds a buffer on its regulatory capital of £25,000, holding £75,000 in total.

			£	£
A.	**Pillar 1 capital Highest of BIPRU €50K, (approximately £50,000), or 13 weeks FOR (£36,835) from an annual fixed overhead forecast of £147,343**			**A = £50,000**
B.	Additional capital required for Pillar 2			
		Section 1: Operational Risk	U	£0
		Section 2: Business Risk	V	£0
		Section 3: Credit Risk	W	£0
		Section 4: Market Risk	X	£0
		Section 5: Other risk	Y	£0
	Less adjustment for double counting in respect of risks relevant to more than one section		Z	£0
	Total additional capital (if any) required for Pillar 2		(U + V + W + X + Y + Z) =	**B=£0**
Total Capital required (A + B) =				C = £50,000

After conducting the ICAAP process, we found the most material risks to be that of:

- under-capitalisation of funds,
- deployment drag, and
- poor investment performance.

While the Firm aims to enjoy a stable and sustainable relationship with its clients, the initial capital raise was derived, and the majority of its revenues are from a few clients (25 investors and 8-10 investee companies). Should these clients wish to terminate the arrangements and relationships that are in place, then that could have a material impact on the Firm's financial prospects. To mitigate such a scenario, the Firm will seek to scale funds under management and attract new investors in the coming 24-36 months. Future capital raise plans are currently being considered impacted by the COVID-19 circumstances. In addition, the Firm has support from its parent company Social Investment Scotland. This support will be reviewed in line with the performance of the Fund.

While poor investment performance is a risk of the business of investment management, the Firm will try to follow its investment strategy in a disciplined manner and be flexible when having to adapt to changing market environments. The current portfolio remains resilient in the face of the challenges created in the COVID-19 circumstances and this will continue to be actively monitored. The Directors do however believe that strong risk management and a disciplined approach to investment, will minimise the risk of losses being made.

At 31st March 2020, the Firm holds share capital of £75,000 and AUM of £1.2m. We believe that there remain significant opportunities to grow this business profitably, increase funds under management, and build capital reserves.

Remuneration

SIS Ventures Limited does not have any employees.