Investment Firms Prudential Regime

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Timeline Portfolios Ltd ("Timeline Portfolios") is authorised and regulated by the UK Financial Conduct Authority ("FCA") as an asset management provider and as such is subject to the FCA's Investment Firms Prudential Regime.

Timeline Portfolios is categorised as a small and non-interconnected investment firm ("SNI"). As required by the rules of the FCA Timeline Portfolios has undertaken an "Internal Capital and Risk Assessment Process" ("ICARA"). The ICARA is reviewed annually or whenever there is a material change to the business, whichever is sooner. The most recent ICARA review was undertaken as at 31st December 2023. The ICARA process considered the risks that Timeline Portfolios is exposed to and the controls that exist to mitigate those risks.

The ICARA process is the collective term for the internal systems and controls that a firm must operate to identify and manage potential material harms that may arise from the operation of its business, and to ensure that its operations can be wound down in an orderly manner.

It further considered whether additional capital was required to meet the risks that Timeline Portfolios faces including, as required by the FCA rules, the potential cost of closing Timeline Portfolios down in the unlikely event that such action was necessary.

At 31st December 2023, Timeline Portfolios assessed its own funds requirement at £176,000, and the current balance sheet at 31st December 2023 shows that the company had met its assessed own funds requirement. In addition, the narrative below is the company's assessment of its underlying risk management controls, own funds position and remuneration.

Risk Management

Timeline Portfolios is an asset management provider and does not risk its own capital in the financial markets. The company does not have regulatory permission to take proprietary trading risks and does not take such risks. Accordingly, the risks that Timeline Portfolios faces are more limited in scope than for other types of regulated firms. The risks and controls detailed below are risks that the company faces in respect of its own activities.

Capital

The own funds of Timeline Portfolios are in the form of shareholders' issued share capital plus retained earnings. All of the capital of the company is Tier 1 capital. As at 31st December 2023 Timeline Portfolios had Tier 1 capital of £1,659,000.

Approach to risk

Timeline Portfolios has identified and performed an assessment of the key risks that may impact its business. The company is an asset management provider and does not undertake proprietary trading. The material risks to Timeline Portfolios largely fall within the "Business Risk" and "Operational Risk" categories.

The ICARA

The ICARA process encompasses the internal systems and controls that a firm must establish. Its primary objectives are to identify and manage potential material harms that may arise from the firm's business operations and ensure that the firm can orderly wind down its operations when necessary.

Unlike a simple risk assessment, ICARA emphasises harm prevention. It looks beyond risks to the firm itself and considers potential harms to consumers, clients, and markets. The goal is to identify, mitigate, and monitor harms posed by the firm's activities.

The ICARA has two Key Outcomes, based on adequate financial resources that are essential for MIFIDPRU investment firms. The ICARA process aims to achieve two critical outcomes, firstly Financial Viability, ensuring the firm remains financially stable throughout economic cycles, and addressing potential material harms. Secondly, Orderly Wind-Down, facilitating a controlled wind-down while minimising harm to consumers and market integrity.

While all MIFIDPRU investment firms must meet appropriate resource thresholds and maintain financial prudence, the practical steps vary based on the firm's business and operating models. The focus remains on material harms, adopting a proportionate and risk-based approach.

Own Funds Requirement

The own funds requirement considers three components:

- **Permanent Minimum Capital Requirement (PMCR):** The highest of the PMCR, fixed overheads requirement, or K-factor requirement.
- **Fixed Overheads Requirement (FOR):** Covers fixed operating costs.
- **K-factor Requirement:** Based on specific risk factors.

Based on the three points above the firm is required to hold capital in relation to the highest value requirement above. As at 31st December 2023, the PMCR remained £75,000, the FOR £176,000, and as discussed below the K-factor (K-AUM) £0.

The firm is therefore required to maintain £176,000 regulatory capital as against the FOR.

K-AUM

Under the current operation model of the firm the key harm is that of assets under management, K-AUM, it's a requirement specified in the context of financial regulations.

The K-AUM requirement for a MIFIDPRU investment firm is equal to 0.02% of the firm's average Assets Under Management (AUM). When measuring AUM, the firm must include any amounts related to the MiFID business carried out by tied agents acting on its behalf.
The definition of AUM excludes amounts arising from the firm's provision of ancillary services related to capital structure advice, industrial strategy, mergers, and acquisitions.

The firm calculates its K-AUM requirement on the first business day of each month.

To determine the average AUM take the total AUM as measured on the last business day of each of the previous 15 months. Exclude the 3 most recent monthly values. Calculate the arithmetic mean of the remaining 12 monthly values.

K-AUM measures the risk to clients resulting from poor management of client portfolios. It includes assets managed under both discretionary portfolio management and non-discretionary investment advisory arrangements.

In order for the K-AUM to require the firm to hold additional capital the 12-month mean must exceed 1 billion assets under management, as at 31st December 2023 the figure was £905,000,000 therefore not requiring additional capital. It is however forecast that the K-AUM mean shall be exceeded within quarter 2 of 2024 thereby requiring the firm to hold £240,000 additional capital and the FOR being superseded as the capital figure.

Principal risks and uncertainties

Market risk

For the purpose of these disclosures, market risk is the risk value of, or income arising from, Timeline Portfolio's assets and liabilities varying as a result of changes in the market price of financial assets, changes in exchange rates or changes in interest rates. Timeline Portfolios does not take the proprietary trading risk and Timeline Portfolios own money is not at risk. The only market risks that Timeline Portfolios potentially face are currency risk due to the mismatch of the currencies in which income is earned and the currencies in which costs are incurred. Currently, this risk does not exist.

Credit risk

Credit risk refers to the potential risk that Timeline Portfolios' customers fail to meet their obligations as they fall due. Timeline Portfolios has appropriate policies in place to monitor this exposure on an ongoing basis.

Liquidity risk

Timeline Portfolio's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in fees receivable. Timeline Portfolios maintains cash balances at its bankers to cover liquidity risk.

Operational risk

Operational risk is the risk of loss arising from failed or inadequate internal processes or systems, human error or other factors. The risk is managed by the directors who have the responsibility for putting in place appropriate controls for the business. Timeline Portfolios documents the risks that it is exposed to and the compensating controls in its ICARA.

Business risk

Business risk is the risk that Timeline Portfolios may not be able to carry out its business plan and could therefore suffer losses if its income falls. This is a risk that all businesses face. The members continuously monitor income and expenditure levels and adjust their plans accordingly.

Concentration risk

Concentration risk is the risk that Timeline Portfolios is overly dependent upon any one customer or any one group of connected customers either in terms of income dependency or in terms of credit risk. Timeline Portfolios continually seeks to grow and develop its customer base so as to minimise this risk.

Interest rate risk

Timeline Portfolios are not exposed to interest rate risk.

Residual risk

Residual risk is any risk not covered by the specific risk categories outlined above. The directors do not consider that there are any residual risks that require the company to maintain any additional capital.

Remuneration disclosures

Timeline Portfolios has concluded that, on the basis of its size, the nature, scale and complexity of its legal structure and business it does not need to appoint a remuneration committee. Timeline Portfolios believes that its remuneration policy is appropriate and that there are no significant conflicts of interest arising in relation to rewarding employees for taking inappropriate levels of risk. The policy is reviewed annually.

Timeline, 70 Gracechurch Street, 4th Floor, London, EC3V 0HR, United Kingdom, 0203 998 8300

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