

# M7 Real Estate Financial Services Limited

## Pillar 3 Disclosure

As at 30 June 2018

### 1 Introduction

#### 1.1 Regulatory Context

This document sets out the Pillar 3 disclosure (the “Disclosure”) for M7 Real Estate Financial Services Limited (“M7FS”, the “Firm”), as required by the Financial Conduct Authority (“FCA”) Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”), specifically [BIPRU 11.3.3 R](#). The Disclosure forms part of the framework applicable under both the EU Capital Resources Directive III (“CRD III”) and the EU Capital Resources Directive IV (“CRD IV”), which consists of the following:

- **Pillar 1** – Sets out the minimum capital requirements for credit, market and operational risk;
- **Pillar 2** – Requires firms and their supervisors to determine whether the minimum capital required under Pillar 1 is adequate to mitigate all risks to which the firm is or may be exposed;
- **Pillar 3** – Requires firms to disclose information regarding their risk assessment process and capital resources with the aim of encouraging market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

The regulatory aim of this Disclosure is therefore to improve market discipline. Unless otherwise defined, capitalised terms used herein have the meanings set out in [BIPRU](#) and the FCA Handbook [Glossary](#).

As a Full-Scope UK Alternative Investment Fund Manager (“AIFM”), M7FS is also subject to the requirements of AIFMD and the prudential requirements as set out in the Interim Prudential Sourcebook for Investment Businesses (“IPRU (INV)”).

#### 1.2 Frequency of Publication

The Firm will update and publish this Pillar 3 disclosure at least annually in accordance with [BIPRU 11.3.8 R](#), or more frequently, should it determine that this is required due to material changes to its business as per [BIPRU 11.4.4 R](#).

### 1.3 Media and Location

This Disclosure will be published on the website of M7 Real Estate Limited (“M7RE”), the parent company of M7FS.

### 1.4 Reliance

The information contained in this document has not been audited by the Firm’s external auditors, as this is not a requirement, and does not constitute any form of financial statement. It must not be relied upon in making any judgment upon M7FS, or the M7 group of companies (the “M7 Group”). Additionally, the information contained in this document should not be construed as an invitation to engage in investment activity.

### 1.5 Materiality

As per [BIPRU 11.4.1 R](#), the Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. In accordance with [BIPRU 11.3.5 R](#), the Firm may omit disclosures from this document if it has assessed this information to be immaterial in the light of [BIPRU 11.4.1 R](#).

### 1.6 Confidentiality

The Firm regards information as proprietary information if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. The Firm must regard information as confidential if there are obligations to Customers, or other Counterparty relationships, binding the Firm to confidentiality in respect of that information. In the event that material information is not disclosed on the grounds of confidentiality, the Firm will state that this is the case and explain the grounds for non-disclosure.

## 2 Background to the Firm

M7FS is incorporated in the UK and is authorised and regulated by the FCA as a Full-Scope UK Alternative Investment Fund Manager (“AIFM”). The Firm is categorised by the FCA for prudential regulatory purposes both as a Collective Portfolio Management Investment (“CPMI”) firm and a BIPRU firm. The Firm is subject to BIPRU because it has MiFID “top-up” permissions in addition to the permission of “Managing an unauthorised AIF”. The Firm does not have Permission to hold Client Money and may act only as agent. The Firm has identified the greatest risk to its business as being Operational Risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk, which include the following:

- The strategies and processes implemented to manage those risks;

- The structure and organisation of the relevant risk management function or other appropriate arrangement;
- The scope and nature of risk reporting and measurement systems;
- The policies for hedging and mitigating risk; and
- The strategies and processes implemented to monitor the continuing effectiveness of those hedges and mitigants.

The Firm has assessed the various risks to which it is exposed in its Internal Capital Adequacy Assessment Process (“ICAAP”) document, and, where applicable, detailed appropriate actions to manage them.

As at 30 June 2018, the Firm was not Managing Investments and therefore was not exposed to the risk that, due to a fall in assets under management (“AUM”), it was not able to collect management and performance fees. The Firm obtains income in the form of fees from its operator mandates and from its parent company, M7RE, under a “Costs plus 5%” arrangement. The Firm’s exposure to credit risk is the risk that it is unable to obtain this income, and therefore its credit risk exposure is low. The Firm holds all Cash and Fee and income balances with Banks assigned high credit ratings.

Market Risk has been assessed by the Firm and is limited to the Firm’s exposure to Cash amounts held by it in Foreign Currencies. The Firm does not hold cash amounts in foreign currencies, and therefore has minimal exposure to Market Risk.

The Firm is a BIPRU Firm without an Investment Firm Consolidation Waiver that deducts Material Holdings as per Annex 4 R of the General Prudential Sourcebook (“GENPRU”).

### **3 Disclosures as per BIPRU 11**

#### **3.1 BIPRU 11.5.1 R: Risk Management Objectives and Policies**

##### **3.1.1 Risk Management Objective**

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite, which it has assessed as limited.

##### **3.1.2 Governance Framework**

The Firm’s Board of Directors (the “Board”) is its Governing Body, and has daily management and oversight responsibility for the business of M7FS.

The Board meets quarterly and comprises:

- David Ebbrell;

- Hugh Fraser;
- Teresa Gilchrist;
- Thomas Pearman;
- David Simmonds; and
- Jack Thoms.

The Board is responsible for establishing the overall risk management policies of the Firm, and ensuring that the Firm's risk management framework is appropriate given the nature, scale and complexity of its business operations and its desired risk tolerance. In addition, the Board ensures that the Firm has implemented an effective, ongoing process to identify, measure and control material risks that are relevant to the Firm and monitor the adequacy and effectiveness of the internal control system of the Firm.

### **3.1.3 Risk Framework**

Risk within the Firm is managed using the following means:

- The Firm's Board is responsible for identifying and monitoring risk;
- The Firm has adopted a moderately cautious approach to risk;
- The Firm has identified its risks and recorded them in a "Risk and Controls Matrix";
- The Risk Matrix is reviewed by the Board;
- The Firm has undertaken scenario analyses and stress tests on the most significant risks identified to its business. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be on the Firm's balance sheet; and
- The Firm has implemented an internal control framework to govern its processes and procedures and to mitigate any risks.

## **3.2 BIPRU 11.5.4 R: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 rule**

### **3.2.1 BIPRU 3 (Credit Risk)**

For its Pillar 1 regulatory capital calculation of Credit Risk, under the Credit Risk Capital Component, the Firm has adopted the Standardised Approach ([BIPRU 3.4](#)) using the simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

As per [BIPRU 3.2](#), the Firm's Credit Risk Capital Requirement based on 8% of risk Exposures has been calculated as **£20,903**.

The Credit Risk Capital Component calculation is set out in greater detail in the table below:

	FCA Handbook Rule	Exposure	Risk Weighting	Risk Weighted Exposure Amount
National government bodies	BIPRU 3.4.2 R	£0	0%	£0
Banks etc. long-term	BIPRU 3.4.36 R	£0	50%	£0
Banks etc. short-term	BIPRU 3.4.39 R	£4,918	20%	£984
Exposure to corporates/debtors	BIPRU 3.4.52 R	£260,306	100%	£260,306
Past due items	BIPRU 3.4.96 R	£0	100%	£0
Fixed assets	BIPRU 3.4.127 R	£0	100%	£0
Prepayments and accrued income	BIPRU 3.4.128 R	£0	100%	£0
<b>Total</b>		<b>£265,224</b>		<b>£261,290</b>
<b>Credit Risk Capital Component</b>		8% of risk weighted exposure		<b>£20,903</b>

### 3.2.2 BIPRU 4 (Advanced Credit Risk Approach)

The Firm does not adopt the internal ratings based approach as per [BIPRU 4](#) and hence this is not applicable.

### 3.2.3 BIPRU 7 (Market Risk)

The Firm has Non-Trading Book potential Exposure only ([BIPRU 7.4](#) & [BIPRU 7.5](#)) and hence this is not applicable.

### 3.2.4 Overall Pillar 2 Rule

The Firm has adopted the “Structured” approach to calculation of its ICAAP Capital Resources Requirement, as outlined in the [Committee of European Banking Supervisors Paper dated 25 January 2006](#).

### 3.3 BIPRU 11.5.8 R: Credit Risk and Dilution Risk

The Firm is primarily exposed to credit risk from the risk of non-collection of Operator Fees, or the failure of M7RE to provide funding under the “Costs plus 5%” arrangement. It holds all Cash and Operator Fee balances with Banks assigned high credit ratings. Consequently, the risk of past due or impaired exposures is minimal. A financial asset is past due when a Counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

### 3.4 BIPRU 11.5.12 R: Market Risk

The Firm has Non-Trading Book potential Exposure only ([BIPRU 7.4](#) & [BIPRU 7.5](#)) in relation to Balances held in net assets/liabilities denominated in non-Base Currency. However, all Balances are currently maintained in sterling which is the firm’s Base Currency. Therefore, the Firm’s Market Risk Capital Requirement is £0.

### 3.5 BIPRU 11.5.2 R: Scope of Application of Directive Requirements

The Firm is subject to the requirement to disclose under the Banking Consolidation Directive. However, it is not a member of a UK Consolidation Group and, consequently, does not report on a Consolidated Basis for prudential purposes as per [BIPRU 11.5.2 R](#).

### 3.6 BIPRU 11.5.3 R: Capital Resources

The Firm is a BIPRU Firm without an Investment Firm Consolidation Waiver deducting Material Holdings as per [GENPRU 2 Annex 4 R](#). Tier One Capital comprises the Firm’s share capital and audited retained earnings.

#### 3.6.1 Capital Resources Calculation

The Firm is a limited company and its capital arrangements are as follows:

Capital Type	Capital Resources
Share capital	£160,000
Audited reserves	£91,438
Hybrid capital	£0
Tier 2 capital	£0
<b>Total</b>	<b>£251,428</b>

M7FS is categorised as a CPMI firm and subject to the BIPRU rules, as well as requirements of IPRU-INV. The Firm’s minimum capital requirement is therefore the highest of:

- Base capital resources requirement of €125,000 and the sum of its Market and Credit Risk requirements; or
- Base capital requirement of €125,000 plus 0.02% of the amount by which the Firm’s assets under management (“AUM”) exceed €250,000,000 (subject to a maximum of €10,000,000); or
- The Fixed Overheads Requirement (“FOR”).

Plus, the Firm is subject to a Professional Negligence Capital Requirement under [IPRU-INV 11.3.11 G](#), which comprises either:

- Additional own funds equal to 0.01% of the value of M7FS’s AUM; or
- Professional indemnity insurance (“PII”) cover that meets specified criteria (and for which the excess is in addition to the own funds requirement).

M7FS has covered the Professional Negligence Capital Requirement through the addition of own funds.

M7FS’s has derived its Pillar 1 capital requirement from its base capital requirement of €125,000 plus 0.02% of the amount by which its AUM exceeds €250,000,000 (currently nil).

The main features of the Firm’s Capital Resources Requirement are as follows:

Capital Item	Capital Resources
Tier 1 capital	£251,428
Total Tier 2 and Tier 3 capital	£0
Deductions from Tier 1 and Tier 2 capital	£0
<b>Total capital resources</b>	<b>£251,428</b>

The Firm has concluded that its Tier One Capital is sufficient to cover its Pillar 1 and Pillar 2 risk Capital Resources Requirement.

### **3.7 BIPRU 11.5.10 R: Firms Calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach**

This disclosure is not required, as the Firm uses the Simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

### **3.8 BIPRU 11.5.11 R: Firms Calculating Risk Weighted Exposure Amounts using the IRB Approach**

This disclosure is not required, as the Firm does not calculate Risk Weighted Exposure Amounts for Specialised Lending Exposures or Equity Exposures as per [BIPRU 11.5.11 R](#).

### **3.9 BIPRU 11.5.15 R: Non-Trading Book Exposure in Equities**

This disclosure is not required, as the Firm does not have Exposure to Non-Trading Book equities as per [BIPRU 11.5.15 R](#).

### **3.10 BIPRU 11.5.16 R: Exposure to Interest Rate Risk in the Non-Trading Book**

Although the Firm has Cash balances on its balance sheet, there is currently no significant Exposure to interest rate fluctuations, and therefore no disclosure is required under [BIPRU 11.5.16 R](#).

### **3.11 BIPRU 11.5.17 R: Securitisation**

This disclosure is not required, as the Firm does not engage in Securitisation activity as per [BIPRU 11.5.17 R](#).

### **3.12 BIPRU 11.5.18 R: Remuneration**

The Firm is a BIPRU Firm and has applied the rules as appropriate on a proportionate basis. The Board is responsible for the Firm's Remuneration Policy. The Firm has not formed a Remuneration Committee, as it considers that this is not appropriate in light of its size, internal organisation and the nature, scope and complexity of its activities.

As at 30 June 2018, the Firm had only one business area: investment management. Additionally, the Firm's Remuneration Code Staff ("Code Staff") comprises its senior management and its risk and compliance function.

The aggregate Remuneration for Code Staff in respect of activities undertaken for M7FS as at 30 June 2018 was **£122,500**.

Please contact [Teresa Gilchrist](#) or [Katie Holland](#), should you have any questions about this Disclosure.