PILLAR 3 DISCLOSURES

Contents

Page

These disclosures are effective from 25 September 2020

1. Overview

Basel III	The Capital Requirement Directive 2014 (CRD4) implemented the recommendations of the Basel capital adequacy framework. This is more commonly known as Basel III.
Applies to Investment firms	CRD4 applies to all banks, building societies, stockbroking firms and investment firms. Harvest Financial Services Ltd (HFS) is an investment firm, regulated by the Central Bank of Ireland (CBI) under the MiFID Regulations, and is subject to CRD4.
Robust governance	Under CRD4, it is a basic requirement of all MiFID firms to demonstrate robust governance arrangements. Firms must show they have the systems to ensure that risks are properly identified and managed.
3 Pillars of Basel III	There are three core elements to the recommendations following from Basel III: Pillar 1 – Minimum Capital Pillar 2 – Supervisory Review Pillar 3 – Disclosure Requirements
Disclosure requirements	Pillar 3 requires firms to make certain disclosures in relation to their risk management activities and allocation of capital. This Disclosure document fulfils the obligations of HFS in relation to Pillar 3.
Limited use	The information contained in this document is subject to judgement, and has not been audited or verified by persons external to the company. This document has been prepared solely for the purpose of complying with the applicable regulations. The legislative information contained herein is based on HFS understanding of current practice, and may change in the future.
Enquiries	Any enquiries or requests for additional information relating to this document should be addressed to: The Chief Risk Officer Harvest Financial Services Ltd Block 3 The Oval Shelbourne Road Dublin 4 D04 T8F2

2. Risk management activities

Risk management framework	The company has documented its risk management activities in a risk framework. This framework defines the company's policy and procedures relating to how the business deals with risk.
Risk appetite and policy	Included in the risk framework is the risk appetite of the company. This is reproduced in Section 2.1, below. It describes the acceptable risks, and the risks to be avoided.
Risk governance	The structures within the company and general approach to managing risk are outlined in Sections 2.2 to 2.5 below. These describe how risk is managed across different functions, and along the chain of management in the company.

2.1. Risk appetite

Low appetite for culture and strategic risk	The Board has a low appetite for risk in relation to the firm's culture and strategy. It is important that culture is managed effectively so that business strategy can be implemented. The culture of the firm is underpinned by its statement of core values.
Minimal appetite for compliance risk	The Board has a minimal appetite for compliance risk, recognising there is always an element of risk. We are highly averse to taking risk in this regard and we aim to minimise any exposure as far as possible.
Low appetite for operational risk	The Board has a low appetite for risk in relation to operational activity and the firm's reputation. We take prudent and pragmatic steps to manage these risks in a manner that is proportionate to the reward.
Neutral appetite for financial risk	The Board has a neutral appetite for financial risk. The Board recognise that all financial reward requires an element risk.

2.2. Risk governance

Board of Directors	The Board of Directors (Board) is responsible for determining the company's risk appetite and maintaining oversight of the risk framework. The Board meets on a regular basis. The Chair of the Board is an Independent Non-Executive Director (INED).
Committee	The Board Risk Committee (BRC) is established by the Board. As part of its responsibilities it provides advice on the company's overall risk appetite, tolerance, and strategy. In doing so, the BRC considers the wider economic and financial environment.
Chief Risk Officer (CRO)	The Chief Risk Officer's role is to oversee the risk management process in the business. In addition, the CRO provides guidance to the business in how to manage and mitigate the risks arising. The current CRO is Hugh Raftery.

Risk management procedures	The company has developed a comprehensive set of procedures and controls, for managing risk in the business. These procedures are reviewed regularly and updated as required, to reflect changes in practice or in the trading environment. The procedures are available for reference to all staff, and discussed directly with relevant staff.

2.3. Integrated approach to managing risk

All areas	Risk affects every area of the business in one way or another. Each part of the business needs to identify and manage the risks arising in its area of responsibility. Many risks will impact on more than one function, so different departments must work together to mitigate risks.
Continuous process	Managing risk is a continuous process. Risks do not stay constant, so it is important that exposures are monitored appropriately. The business needs to be flexible enough to adapt to changing circumstances.
Consistent language	The language used to describe risk across the business is consistent. This starts at the Board, and filters down to management, department, and the individual. This ensures a more effective risk mitigation process.
KRI's	Key Risk Indicators (KRI's) are identified by the business and reported to the Management Team or Board as required. KRI's will change over time, depending on the prevailing circumstances.
Risk tolerances	The Board has determined certain tolerance in relation to each of the KRI's identified by the business. These tolerances are monitored by the business. When a tolerance is exceeded, prompt action is taken to minimise the exposure to the underlying risk.

2.4. Who manages risk?

Board	The Board sets the strategy for the company to achieve its long term objectives. The strategy will determine how risk is managed by the business.
Management team	The Management Team is responsible for managing the business on a day to day basis. Each division must identify and manage the risks that arise in its area of responsibility. In addition, managers must identify and put in place the appropriate mitigation.
Team leaders	Below the Management Team are team leaders, who are responsible for implementing the processes and controls defined by the business, so that it can be effective.
Individuals	Individual members of staff are required to act with due skill, care and diligence at all times. Their work is vital to achieving the goals and objectives set along the line of management.

2.5. Risk categories

Six broad categories	Risk can be analysed in a variety of headings. To avoid an over complex model, we have set out six broad headings to capture the risks facing the business. These are described in the following paragraphs.
1) Strategic risk	This is the exposure to loss resulting from a strategy that turns out to be ineffective or inappropriate. It includes the impact of competitive threats, industry changes and corporate governance.
2) Reputational risk	This is the risk that the company will lose existing or potential business as a result of its character or quality being called into question.
3) Operational risk	The risk of loss arising from internal inadequacies, or the breakdown of controls, operations or procedures. This is a significant risk to HFS, and is managed with extensive procedures and controls.
4) Financial risk	The risk that an actual return on a business activity is less than the expected return. This includes situations where costs arising are greater than expected. Factors impacting on financial risk include interest rates, foreign exchange, and available credit.
5) Regulatory risk	The exposure to loss arising from regulatory agencies making changes to current rules, or the business failing to meet existing standards. The primary regulators for HFS are the Revenue Commissioners, the Pensions Authority, the Central Bank of Ireland and the Data Protection Commission.
6) Cyber risk	Cyber risk is a general term which covers many different types of risk. Cyber risk is not limited to the IT function, rather across the entire firm. In summary, cyber risk means threats to networks, computers, programs and data, flowing from or enabled by connection to digital infrastructure. Primary threats can relate to information security, hardware and software controls. HFS manages these threats through a combination of policies and procedures, improved awareness among staff, and maintaining up to date security controls and practices.

3. Allocation of capital

Capital required and capital in place	In reviewing the capital of the firm, we have looked at two elements. First, we have examined the amount of capital required for the business to function effectively into the future. Secondly, we have examined the controls, to ensure that there is sufficient capital in place and that it remains in place.

3.1. Capital requirement

Minimum capital €846	The minimum initial capital requirement is defined in CRD4. In the case of HFS, the minimum capital is €846,000. This is Pillar 1 of the three pillars referred to in the Overview, above.
ICAAP	As a firm subject to CRD4, HFS is required to review its long term objectives and business risks, to ensure it has adequate capital to cope with managing the challenges facing it. In addition, appropriate scenario testing is carried out to determine any additional capital needs. This review is called the Internal Capital Adequacy Assessment Process (ICAAP). The process is a continuous one, where the Board monitors the factors which impact on the firm's requirement to retain capital. This process is Pillar 2 of the three pillars.
Fixed Overhead Requirement	The Fixed Overhead Requirement (FOR) for the firm is calculated as 25% of the fixed overheads of the firm, as verified by the auditors from the most recent audited accounts. The firm's FOR, based on the 2019 accounts, is €973k.
Capital required €1,223k	The Board of HFS is satisfied that it has adequate capital in place to manage its exposures, including those in the future. The capital requirement for the firm is determined as the greater of: Pillar 1; Pillar 2; and the FOR. The capital requirement for the firm is assessed as €1,223k.

3.2. Capital adequacy

Regular review	The figures below summarise the firm's position with regard to capital in place, and the surplus over the amount of capital required. The Board receives regular reports of the firm's financial and capital position.

		€000
Extract from 2019 accounts:	Called up share capital Profit and loss account Other reserves	79 2,524 (137)
Available capital	Shareholders' funds	2,466
Capital requirement		1,223
Excess capital over requirement		1,243

4. Remuneration policy

Written policy	HFS has implemented a remuneration policy as part of its suite of internal controls. This policy provides for a strategy that balances the needs of HFS and the needs of its employees. The policy recognises the need to contain costs in HFS, and to promote superior employee performance. In assessing employee performance, there is a balance between quantitative and qualitative measures.
Regulatory guidelines	The policy has been devised taking due consideration of appropriate regulatory obligations. We have applied the principals set out in the following regulations and guidelines: • ESMA guidelines of June 2013, • Obligations set out in CRD4, • Guidelines on Variable Remuneration issued by the CBI in July 2014, • Requirements set out under MiFID II, effective 2018
Balance of fixed and variable pay	HFS maintains an appropriate balance between fixed and variable pay. For any individual, the variable element will not exceed 100% of the fixed element.
Pay linked to performance	The Board of HFS seeks to ensure the company rewards individuals for the achievement of the company's objectives, and motivates high levels of performance. Exceptional performance by individuals is recognised and rewarded, through the performance management system.
Client interest	The interests of clients must always be protected. Employee performance measures must include assessment criteria which encourage good practice in this regard.
Annual review	The remuneration policy is reviewed by the Board on an annual basis.

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