Wealth Options Limited

Regulatory Disclosures - June 2022

INTRODUCTION

A new prudential framework for investment firms was introduced by the Investment Firms Directive and Regulation (IFD and IFR) which was transposed into law on 26 June 2021.

The objective of the IFD and IFR is to provide capital, liquidity and other prudential requirements for investment firms that reflect the business models of those firms and proportionately capture the risks posed and faced by those firms.

Under the IFR/IFD framework, Investment firms fall under one of three classes;

- Class 1 and Class 1 minus investment firms remain subject to the CRR/CRD prudential framework. Class 1 investment firms, who are the largest and most systemic, are required to apply for authorisation as credit institutions.
- Class 2 investment Firms are subject to the new IFR/IFD prudential regime
- Class 3 investment firms are generally small and non-interconnected firms and must at all times, satisfy certain cumulative conditions under the new IFR/IFD prudential regime, however they benefit from a lighter reporting framework.

Wealth Options Ltd ("Wealth Options") is currently classified as a Class 2 Firm under the Regulations. Class 2 firms must comply with a range of new requirements relating to, Capital and Own Funds, Liquidity, Internal Governance, Remuneration and Disclosure and Reporting.

The Firm's business model is focused on the provision of pre and post retirement product. Its core products include the administration of Approved Retirement Funds (ARFs), Personal Retirement Bonds (PRBs) and Personal Retirement Saving Account (PRSA's).

In accordance with the Regulations, we have set out below disclosures relating to the following:

1. Risk management objectives and policies
2. Liquidity
3. Governance
4. Own funds
5. Own funds requirements
6. Remuneration

RISK MANAGEMENT OBJECTIVES AND POLICIES.

Risk Management is a continuous and developing process which runs through the implementation of the Firm's strategy. The Firm's risk policy is to address and profile all of the risks surrounding the organisation's activities, past, present and particularly in the future. Consideration of likelihood and impact is assessed along with the Firm's mitigating controls and procedures. The Board of Directors of the Firm recognises its obligations and responsibility for protecting the organisation, it's clients, underlying investors, it's people, assets and profits against the (adverse) consequences of risk.

The Firm seeks to achieve this risk strategy by;

- Promoting a culture that emphasises integrity;
- Approving and monitoring the effectiveness of the risk management function;
- Embedding risk management in all aspects of the Firm's activities;
- Approving the risk appetite of the Firm;
- Determining the principal risks and ensure they are communicated;
- Setting the overall policies and framework for risk management and control;
- Reporting quarterly to the Board

The Firm has implemented an integrated approach to risk management and understands that this requires sustained effort on behalf of all staff. The management of the Firm has detailed risk management processes in place.

The Firm has developed a risk assessment process to evaluate the risks to which it is exposed. The Firm identified internal and external factors and risks were identified through an environmental scan, preliminary data collection and analysis.

Threats and opportunities were identified and the assessment of them will be adjusted as necessary through ongoing internal and external environmental scans and analysis.

The Firm has a documented Risk Appetite Statement which determines the level of risk the Firm is willing to take in order to execute the Firm's strategy. The Firm's Board recognises that there is a requirement for on-going development of the Risk Appetite Statement to ensure that the metrics remain relevant and accurately reflect the changes to the business. To achieve this the Risk Appetite Statement is reviewed by the Firm's Board at least annually.

The IFR/IFD set out certain risk categories that must be monitored with specific procedures to quantify the relevant risk exposure. These are set out as follows;

RISK TO CLIENT

- K-AUM – (assets under management) The Firm does not provide portfolio management services and as such the value of assets under management is zero.

- K-COH – (client order handling) Clients orders are limited to the remaining Structured Retail Products ("SRP's) business, whereby investments structured by the Firm are held in custody with Redmayne Bentley in accounts in the clients' name. Requests to redeem are transmitted to Redmayne Bentley by the Firm, however as the venue is specified and the order is specific, best execution does not apply. The Firm however does apply procedures to ensure that requests are processed promptly. For indicative purposes, the majority of clients hold these types of investments to maturity and requests to redeem are ad hoc and infrequent in nature.

- K-CMH - (client money held) and K-ASA - (asset safeguard)
  Care with counterparty selection helps to reduce exposure to credit risk. The Client Asset Regulations require the Firm to conduct appropriate level of due diligence and regular reassessment of the counterparty through bi-annual risk assessments. Oversight of the Firm's Client Assets is delegated to the Firms HCAO, and they report quarterly to the Board of Directors. The Compliance team carry out regular inspections of Client Assets in line with the Compliance testing plan and report to the HCAO on the results of those reviews. The Firms CAR arrangements are set out in the Client Assets Management Plan which is subject to regular review by the Board. The Firm's Client Assets are also subject to annual client asset examination performed by an external auditor.

  The Firm holds client assets with Bank of Ireland only, by way of historic tracker bonds which have now matured. The Firm is in the process of returning the final balances held on account.

RISK TO MARKET

- K-NPR (Net position risk) The Firm does not conduct trading activity where the Firm is exposed to Market Risk.
- K-CMG (clearing margin) The Firm does not undertake margined transactions

RISK TO FIRM

- K-TCD (trading counterparty default)
- K-CON (concentration risk)
- K-DTF (daily trading flow)

The Firm does not operate a trading book, and as such there is no K-factor requirement associated with Risk to Firm. The Firm does however capture the risks it is exposed to within the Risk register which is subject to quarterly review by the Risk Committee, and presentation to the Board.

The Firm has set out below the core risks it deems to be material.

OPERATIONAL RISK

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk includes legal and compliance risk. The Firm includes Outsourcing Risk in this section.

The Firm considers operational risk to be a material risk which the Firm faces because of the direct relationship between the risks identified and the level of fee income generated from operational activities. Due to the small size of the Firm it is not always possible to have full segregation of duties as a risk control mechanism.

The Firm has documented Operational Risk Management Framework, in order to control the impact within reason, and formalise the steps taken in identifying and resolving errors and matters. The Board is confident that this will reduce the deemed level of risk within the operational functions of the Firm.

IT AND CYBER SECURITY RISK

This risk is the current or prospective risk to clients or underlying investors and the Firm arising from inadequate information technology, safeguarding measures and processing in terms of manageability, exclusivity, integrity, controllability and continuity, or arising from an inadequate IT and Cyber Security strategy and policy or from inadequate and/or inappropriate use of the Firm's information technology.

The risk associated with Cyber Security is ever increasing and together with IT risk the Firm outsources information technology functions to a third-party service provider ('IT Team').

In order to mitigate and manage the risks within IT and Cyber Security, the Firm has adopted resilient software and hardware systems to protect the Firm and Client information. The Firm monitors the performance of this infrastructure alongside the IT Team through ongoing engagement. The Firm receives and reviews structured IT assessments and reports on a weekly and monthly basis from the IT Team. The Firm's IT Team carry out Monthly "pro-active" days which includes monthly checks on the Firm's IT infrastructure to identify weaknesses and address any concerns staff at all levels have within the Firm.

The IT Team also provides regular training to staff members to ensure all staff is aware of the sensitive environment the Firm operates within. Staff awareness of potential Phishing and Virus threats is crucial to ensuring the protection of Client and Firm information.

MARKET RISK

The current or prospective risk to earnings and capital arising from adverse movements in financial markets. This risk can arise from several factors including competitor activity, regulatory changes, loss of supplier and general economic factors.

Wealth Options is indirectly exposed to Market risk due to the correlation of the value of underlying assets under administration and income. Investment advice and portfolio management services are not offered by the Firm at present; therefore, the Firm is not exposed to sustainability risks generally associated with MiFID investment Firms. While sustainability risks can have a material impact on the value of investments and their associated returns, this risk is managed by the underlying clients' financial advisor.

To address this risk the Firm has developed and maintains systems and controls which include:

- Ongoing monitoring of the Firm's profit and loss and capital levels to ensure adherence with the capital adequacy requirements;
- Ongoing review and scrutiny of revenue levels to identify potential material reductions in revenue and business lines.
- The Firm is a member of the IMIA, the Irish MiFID Industry Association and APTI, the Association of Pensioneer Trustees in Ireland and Brokers Ireland. Through this engagement the Firm is kept informed of current and upstream regulatory matters and provides opportunities for the Firm to gain insights into competitor and regulatory activity, and how the Firm is best placed to adopt changes.
- Regular engagement and conversation with market peers to stay informed of activity.
- Quarterly reviews of all the risks identified in the risk register and Board reporting.

REPUTATION RISK

The current or prospective risk to earnings and capital arising from adverse perception of the image of the Firm on the part of clients, counterparties, investors and/or Regulators. This can be caused by the failure of a product, a regulatory sanction, fraud or adverse media comments. The Firm has identified this as a risk and any risk identified will be reported to the Board. The Firm considers reputation risk to be material.

In the event that there is negative publicity around the Firm, a PR Firm is engaged to manage and protect the reputation of the Firm.

COUNTERPARTY RISK

The current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Firm or its failure to perform as agreed.

The Firm's key counterparty risk is with AIB and Bank of Ireland as they are the primary banks the Firm deals with. Other counterparty risk rests with the custodians of Structured Retail Products previously distributed by the Firm. The Firm deems this to be a material risk. In order to manage and monitor these risks the Firm;

- Carries out an assessment of the credit institutions holding client assets on at least a bi-annual basis.
- Deposits its own funds with financial institutions of appropriate investment grade. The allocation of the Firm's own funds to each counterparty is monitored on a monthly basis and assessed for appropriateness.

STRATEGIC RISK

The current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, fraud, improper implementation of decisions or a lack of responsiveness to changes occurring in the business environment including regulatory changes.
Although the Firm's strategic plans are not expected to change in the next 3 - 5 years, changes to the environment in which the Firm operates are expected. The Firm's reactions to these changes may need to be quick to protect the Firm. The governance structure developed will protect the Firm in making informed decisions to best steer the Firm during the current changes. Following a review of the Firms' strategy with regard to the products and services offered, the Firm considers these to be resilient, and thus considers this to be to a low risk. The Firm's revenue is primarily based on recurring income derived from low risk pre and post retirement products. The firm recognises that changes to legislation may impact on the pension products structures under offer. To address this risk the Firm regularly reviews its strategy with a view to keeping on top of the ever-changing market and the Firm believes that it is in a position to react quickly if required.

CONDUCT RISK

The risk that the Firm fails to conduct business in accordance with policies, procedures, and regulation.

The Firm has a Head of Compliance in place. There are procedures documents in place for all business areas and regular staff training is carried out. The internal organisation of the Firm allows for regular and ongoing supervision of staff and as such the Firm considers this to be a low risk. However, the impact of such a risk occurring could be significant. The Firm has at its core principle the proper treatment of its clients and underlying investors (i.e. broker clients). The Firm endeavours to provide strong leadership actions and communications through training and how it conducts itself.

LIQUIDITY

The company operates Liquidity Management controls to ensure that, at all times, the company holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties. Liquidity Risk is a secondary risk type that would be caused by a significant and sustained deterioration in operating performance of the business.

Liquidity Risk is managed through:

- Firm cash, which is segregated from client cash, is managed by ensuring that the firm holds liquid assets to at least the proportion of its fixed overhead requirement specified in the regulations.
- The Firm has established liquidity indicators for working capital ratio and liquidity lines that are designed to highlight any potential short- or long-term liquidity or funding issues.
- Wealth Options Head of Finance manages the level of cash on deposit and maturity profile of other term deposits to ensure there is sufficient liquidity to meet the cash requirements of the Firm.
- Review of Counterparties and underlying Risk Ratings.

GOVERNANCE

In accordance with Article 46 and 48 of the IFR, the Firm sets out the below disclosures.

DIRECTORSHIPS

As at June 16th, 2022 the number of Directorships held by the Management Body are set out below;

Number of Directorships held	55
Of which are Wealth Options Limited Directorships	4
Of which are External Directorships	51

It is noted that two executive Directors hold 15 common directorships, most of which are related to corporate services for another related company. This accounts for 30 of the above 55 directorships held.

BOARD DIVERSITY

The Wealth Options Board recognises the importance and benefit of having a diverse Board including diversity of skills, experience, and gender. The Board is also cognisant of the size, nature and complexity of the Firm. While all appointments have been filled to date, the Board will consider the remuneration guidelines including diversity and gender in advance of future appointments.

ROLE OF THE MANAGEMENT BODY IN RISK MANAGEMENT

In accordance with Article 28 of the IFD the Board approves and periodically reviews the strategies and policies on the risk appetite of the investment firm, and on managing, monitoring and mitigating the risks the investment firm is or may be exposed to, taking into account the macroeconomic environment and the business cycle of the investment firm.

The Board devotes sufficient time to ensure proper consideration of the risks to which it is or may be exposed and allocates adequate resources to the management of all material risks to which the investment firm is exposed.

The Board ensures that the Firm establishes reporting lines to the management body for all material risks and for all risk management policies and any changes thereto.

The Firm has an established Risk Committee. The Risk Committee met 4 times during 2021.

Members of the risk committee have appropriate knowledge, skills and expertise to fully understand, manage and monitor the risk strategy and the risk appetite of the investment firm. They ensure that the risk committee advises the Board on the investment firm’s overall current and future risk appetite and strategy and assists the management body in overseeing the implementation of that strategy by senior management.

The ultimate responsibility for the management of risk resides with the Board of Wealth Options Limited. The Board considers risks to the business, determines which are primary risks to the business and then places those risks into risk groups. The Board also ensures that financial and other basic controls are working effectively.

OWN FUNDS

OWN FUNDS RECONCILIATION

In accordance with article 49 of the IFR the Firm sets out in Appendix 1, the reconciliation of Own Funds, Restrictions, and deductions to the audit financial statement balance sheet of the firm.

OWN FUNDS REQUIREMENTS

INTERNAL CAPITAL ADEQUACY ASSESSMENT

In accordance with article 50 of the IFR the Firms sets out the below.

In line with the requirements of CRD IV and IFD the firm is required to prepare an internal assessment which assesses the capital adequacy of the firm and for the firm to determine that it is adequately capitalised against the risks to which it is exposed. This is the firms Internal Capital Adequacy assessment document (ICAAP).

A robust governance structure is in place around the assessment, monitoring and control of the firm's capital adequacy. The ICAAP measures the firms "Internal Capital", which is essentially Wealth Options own measurement of the minimum capital it requires to hold against risks undertaken, including risks not identified under CRR or IFR.

The Wealth Options ICAAP document presents an outline of the Wealth Options business model, to clearly illustrate how the key risks facing Wealth Options have been addressed through the ICAAP process. The document then outlines the core elements of the risk management and control framework mitigants that supports the business model. This provides the context for the Internal Capital requirement calculations that are generated through stress and scenario testing of the material risk exposures.

FIXED OVERHEAD REQUIREMENT

The fixed overhead requirement determined in accordance with Article 13 of this Regulation is €.605m.

K FACTOR REQUIREMENT

Set out in Appendix 2 is the K-factor requirements calculated, in accordance with Article 15 of the Regulations, in aggregate form for Risk to Market, Risk to Firm and Risk to Client, based on the sum of the applicable K-factors.

REMUNERATION

In accordance with article 51 of the IFR Wealth Options Ltd has in place a Remuneration Policy which promotes sound and effective risk management and does not encourage risk-taking that exceeds the level tolerated by the Firm. Wealth Options do not provide investment advice or portfolio management services and in this regard is not part of the asset selection process for the underlying clients' pension. Wealth Options provide administration services to the exempt unit trust of which clients' pension investments are held.

Wealth Options Ltd has procedures in place for assessing variable remuneration to ensure that employees are remunerated in a manner that promotes sound and effective risk management in their conduct of business. The procedures seek to ensure that excessive risk taking is not rewarded. Wealth Options aligns the payment of variable remuneration to its business cycle, the performance of the Firm and the risks of the Firm.

Wealth Options has carried out an assessment of its remuneration for 2021 and notes the following in accordance with article 51. The ratio between fixed and variable remuneration during 2021 was 1:0.22

7 Material Risk Takers ("MRT's") were identified during the period. Fixed remuneration of €636k was paid during the year to 7 MRT's. Variable remuneration of €142k was paid in the form of cash and pension contributions to 5 MRT's.

Approved for publication by the Board of Directors