

Cross Ocean Adviser LLP
(The “Firm” or “Cross Ocean”)

December 2020

Pillar III Disclosure

1 Introduction

Cross Ocean Adviser LLP (“OCA”, the “Firm”) is required by the Financial Conduct Authority (“FCA”) to disclose information relating to the capital it holds and each material category of risk it faces to assist users of its accounts and to encourage market discipline.

The Capital Requirements Directive (“CRD”) created a revised regulatory capital framework across Europe covering how much capital financial services firms must retain. In the United Kingdom, rules and guidance are provided in the General Prudential Sourcebook (“GENPRU”) for Banks, Building Societies and Investments Firms (“BIPRU”).

The FCA framework consists of the following three Pillars:

- Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk.
- Pillar 2 requires companies to assess whether their Pillar 1 capital is adequate to meet their risks and is subject to annual review by the FCA.
- Pillar 3 requires companies to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position. These disclosures are complimentary to Pillar 1 and Pillar 2.

BIPRU 11 sets out the provisions for Pillar 3 disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential. The Firm believes that the disclosure of this document meets its obligation with respect to Pillar 3.

2 Firm Overview

COA is incorporated in the UK and is authorised and regulated by the FCA as a BIPRU €50K limited license firm.

The Firm provides investment advisory services to its clients.

The Board is the governing body of the Firm. The Board meets informally on a regular basis and meets formally as required for the business but at least quarterly.

The Board is responsible for daily management and oversight of the Firm and for setting the Firm’s strategy and risk appetite.

Senior Management is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of COA.

3 Regulatory capital resources and requirements

3.1 Regulatory capital resources

As at 31 December 2020, COA holds regulatory capital resources of £2,269,000, comprised solely of core Tier 1 capital in the form of partnership capital.

The Firm has calculated its BIPRU capital resources in accordance with GENPRU 2.2:

As at 31 December 2020, the regulatory capital resources of COA are as follows:

Regulatory capital resources component	£000s
Partnership capital	32,407
Audited reserves	(18,988)
Interim net losses	-
Intangible assets	(11,150)
Excess drawings over partnership profits	-
Total regulatory capital resources	2,269

3.2 Pillar 1 regulatory capital requirements

As a BIPRU €50K limited license firm COA's regulatory capital requirements are the higher of:

- Its base capital requirement of €50,000;
- The sum of its market and credit risk requirements; and
- Its fixed overhead requirement ("FOR").

As at 31 December 2020 the regulatory capital requirements of COA are as follows:

Regulatory capital requirement component	£000s
Base capital requirement (a)	44
Market risk	350
Credit risk	756
Sum of market risk and credit risk requirement (b)	1,106
Fixed overheads requirement (c)	1,693
Total regulatory capital requirement Higher of (a), (b) and (c)	1,693

As at 31 December 2020, the Firm's Pillar 1 regulatory capital requirement was its FOR of £1,693k.

3.3 Pillar 2

The Firm has adopted the “structured” approach to the calculation of its Pillar 2 Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 and 2 as the Internal Capital Adequacy Assessment Plan (“ICAAP”) capital requirement. It has assessed business risks by modelling the effect on its capital planning forecasts and assessed operational risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

The Firm’s ICAAP process identified an expected cost of wind-down the Firm as £1,490k. As such, the Firm’s ICAAP as at 31 December 2020 concluded that overall regulatory capital of £1,693k should be held as the FOR is higher than the wind-down costs.

4 Risk management framework

The Firm has established several committees, namely:

- Investment Committee
- Portfolio Review Committee
- Valuation Committee
- Enterprise Risk Committee

These committees are staffed by a member of the Board and certain key individuals of the Firm and allows for a more detailed focus on specific risks faced by the Firm.

The Firm has established a risk management process to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Firm's partners.

As risks are identified within the business, appropriate controls are put in place to mitigate these and compliance with them is monitored on a regular basis. The frequency of monitoring in respect of each risk area is determined by the significance of the risk. The Firm does not intend to take any risks with its own capital and ensures that risk taken within the portfolios that it manages is closely monitored and in line with the set parameters.

4.1 Operational Risk

The Firm places strong reliance on the operational procedures and controls that it has in place to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks. These relate to disruption of the office facilities, system failures, trade failures and failure of third party service providers. Appropriate policies are in place to mitigate against risks, including a business continuity plan and the Firm also has an appropriate insurance policy in place.

4.2 Credit Risk

The Firm neither holds client money nor assets, nor lends money and does not deal on its own account, and is, therefore, not exposed to credit risk in its traditional sense.

The Firm's exposure to credit risk is the risk that investment advisory fees cannot be collected and the exposure to banks where surplus funds may be deposited. These fees are generally billed and received quarterly in arrears. These fees are not considered to be significant risk on a 12 month forward looking basis, and as such, credit risk is not considered to be a material risk to the Firm.

The Firm has adopted the standardised approach to credit risk, and therefore follows the provision within BIPRU 3 (Standardised Credit Risk) of the FCA handbook. The Firm applies a credit risk capital component of 8% to its non-trading book risk weighted exposure. As it does not make use of an external credit rating agency, the Firm is obligated to use a risk weight of 100% to all non-trading book credit exposures, except cash and cash equivalents which are held by investment grade firms and currently attract a risk weighting of 20%.

4.3 Market Risk

The Firm's only potential exposures are non-trading book exposures (i.e. to foreign currency held on deposit and assets or liabilities held in foreign currency, such as debtors, on the Firm's statement of financial position).

The Firm's exposure to foreign exchange risk arises from the fact that it invoices its clients in foreign currency while most of costs are incurred and settled in the Firm's functional currency being GBP. A change in the foreign exchange rate will thus impact the amount of these receivables.

The Firm considers this risk to be negligible given the relatively short period between when the revenue is earned and when it is received. As such, market risk is not considered to be a material risk to the Firm.

5 Remuneration Code disclosure

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19C of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook ("SYSC"), and in accordance with ESMA's Guidelines on sound remuneration policies. The Firm has considered all the proportionality elements in line with the FCA guidance.

The Firm has concluded, based on its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the Board sets and oversees compliance with the Firm's remuneration policy including reviewing the terms of the policy at least annually.

In accordance with SYSC 19C, COA makes the following quantitative remuneration disclosure for its identified Code Staff:

5.1 Code Staff remuneration disclosure

Senior Management and members of staff whose actions have a material impact on the risk profile of the Firm are classified as Code Staff. The below table shows the number of Code Staff in each business area as at the date of this Pillar 3 disclosure:

Business Area	Number of Code Staff
Senior Management (SIF)	5
Other Remuneration Code Staff	1
Total	6

Remuneration Type	Remuneration amount (GBP)
Total fixed remuneration of Code Staff	1,459,017.81
Total variable remuneration of Code Staff	992,000.00