



## **CdR Capital Ltd**

### **Annual Pillar 3 Disclosure – May 2017**

#### **Introduction**

CdR Capital Limited (“CdR” or “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 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 seen as complimentary to Pillar 1 and Pillar 2.

The AIFMD also adds further capital requirements based on the assets under managements of any AIFs (Alternative Investment Funds) and professional liability risks.

Rule 11 of BIPRU 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. The Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical once the audited annual accounts have been finalized.

#### **Firm Overview**

CdR is incorporated in the UK and is authorised and regulated by the FCA as a Full Scope Alternative Investment Fund Manager and is categorised by the FCA, for prudential regulatory purposes, both as a Collective Portfolio Management Firm (“CPMI”) and a BIPRU firm. The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

The Governing Body of CdR has the daily management and oversight responsibility. It generally meets quarterly and is currently composed of Stephen Smith and Paul Feldman. The Governing Body is responsible for the business strategy and the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body determines CdR’s risk appetite/tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure their potential impact and then to ensure that such risks are actively managed and/or mitigated.



The Governing Body meets on a regular basis to discuss current projections for profitability and regulatory capital management, business planning and risk management.

Senior management is accountable to the Governing Body for designing, implementing and monitoring the process of risk management and integrating it into the day to day business activities of CdR.

### **Risk Management**

The Governing Body manages the Firm's risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required. The Firm has established a risk management process in order 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 Governing Body.

The Governing Body has identified those business, operational, market and credit risks to which the Firm is exposed. Annually the Governing Body formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where it identifies material risks they will model the financial impact of these risks as part of our business planning and regulatory capital management process and conclude whether the amount of regulatory capital is adequate. Management accounts are reviewed on a regular basis in order to demonstrate continued adequacy of the Firm's regulatory capital.

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 it manages is closely monitored. The results of the compliance monitoring performed is reported to the Governing Body by the Compliance Officer.

### **Credit & Market Risk**

The main credit risk to which the Firm is exposed is in respect to the failure of its debtors to meet their contractual obligations. The majority of the Firm's revenue is related to its investment management and client introduction activities. The Firm believes its credit risk exposure is limited since the Firm's revenue is ultimately related to fees received from just these two activities and which are drawn throughout the year. Other credit exposures include bank deposits and office rental deposits.

The Firm is small with a simple operational infrastructure. The Firm carries no market risk, other than foreign exchange risk on its accounts receivable in foreign currency, and credit risk from the fees discussed previously. The Firm follows the standardized approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge.

### **Operational Risk**

The Firm places strong reliance on the operational procedures and controls that it has in place in order 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 these risks, including appropriate insurance policies and business continuity plans.

## **Capital Resources and Requirements**

### **Pillar 1**

The Firm is a CPMI firm and as such its capital requirements are the greater of:

- Funds under management requirement of €125,000 plus 0.02% of the AIF AUM exceeding €250,000,000;
- The sum of its market and credit risk requirements; or
- The Fixed Overhead Requirement (“FOR”, which is essentially 25% of the firm’s operating expenses less certain variable costs);

PLUS PII Capital requirement based on the excess for professional liability risk.

It is the Firm’s experience that FOR establishes its capital requirement.

The Firm’s capital resources for regulatory purposes are as follows (based on audited 2016 numbers):

	GBP
Called Up Share Capital	£2
Audited Retained Reserves	£1,157,130
Total Tier 1 Capital	£1,157,132
Total Tier 2 Capital	£0
Total Tier 3 Capital	£0
<b>Total Capital</b>	<b>£1,157,132</b>

As at May 2017, the Firm’s Pillar 1 capital requirement was £693, 865.

As such it is in excess of its Pillar 1 requirement.

## **Satisfaction of Capital Requirements**

### **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 ICAAP capital requirement. It has assessed Business Risks by modeling 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.

Since the Firm's Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process has not identified that any capital needs to be held *over* and *above* the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm over the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable. This position will be continually monitored and discussed by the Governing Body during its regular meetings.



### **Remuneration Disclosures**

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19B 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 have considered all the proportionality elements in line with the FCA Guidance.

Remuneration is designed to ensure that the firm does not encourage excessive risk taking and staff interests are aligned with those of the clients.

The Governing Body is directly responsible for the overall remuneration policy which is reviewed annually. Variable remuneration is adjusted in line with capital and liquidity requirements as well as the Firm's performance. The Governing Body will review the remuneration strategy on an annual basis together with the Remuneration ("Code Staff").

The Firm ensures that its remuneration structure promotes effective risk management and balances the fixed and variable remuneration components for all Code and Non-Code staff. Total Remuneration is based on balancing both financial and non-financial indicators together with the performance of the Firm and the staff member's business unit. The Firm will monitor the fixed to variable compensation to ensure SYSC 19B is adhered to with respect to Total Compensation where applicable.

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by categorising firms into three levels. The Firm falls within the FCA's proportionality level three and as such this disclosure is made in line with the requirements for a level three firm. Given the size and nature of the business the Firm considers that it does not need to maintain a separate Remuneration Committee. Remuneration of the senior officers in risk management and compliance functions is directly overseen by the Governing Body. The need for a separate Remuneration Committee will be reviewed in the event of a material change to the Firm.

The Firm currently sets the variable remuneration of its staff in a manner which takes into account individual performance and the overall results of the Firm. As permitted for firms falling within proportionality level three, the Firm takes into account the specific nature of its own activities (including the fee-based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

In accordance with SYSC 19B, the Firm makes the following quantitative remuneration disclosure for code staff.

### **Code Staff Quantitative Remuneration**

The Firm is required to disclose aggregate information on remuneration in respect of its Code Staff, broken down by business area and by senior management and other Code Staff. 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 relatively small size and lack of complexity of the firm's business is such that the Firm only has the one business area, investment management and client introductions and does not regard itself as operating, or needing to operate, separate 'business areas' and the following aggregate remuneration data should be read in that context. The aggregate remuneration of Code Staff for the year ending December 2016 was £1,507,482.