

Crossbridge Group's Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of Crossbridge Capital LLP and Crossbridge Capital (UK) Ltd (“the Group”) is set out below as required by the FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This is a requirement which stems from the UK’s CRDIII implementing Regulations which represented the European Union’s application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remain subject to the UK’s implementation Regulations of CRD prior to CRDIV. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Group will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date (“ARD”) from 1st April 2020 to 31 March 2021.

Media and Location

The disclosure will be published on our website. <https://www.crossbridgecapital.com/pillar-iii>

Verification

The information contained in this document has not been audited by the Group’s external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

Materiality

The Group 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. If the Group deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Group regards information as proprietary 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 Group’s investments therein less valuable. Further, the Group must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Group to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD, to which the Group remains subject as a consequence of the UK CRDIII implementing Regulations, have three pillars; Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by a Group and the Supervisory Review and Evaluation Process through which the Group and Regulator satisfy themselves on the adequacy of capital held by the Group in

relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The regulatory aim of the disclosure is to improve market discipline.

The Group is a MiFID Investment Management Group. It acts solely as agent, so the main protection to our customers is provided through client money and asset arrangements. The Group's greatest risks have been identified as business and operational risk. The Group is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes 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; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges.

The Group has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by our clients to third party providers such as administrators reducing our exposure to operational risk. The Group has an operational risk framework (described below) in place to mitigate operational risk. The Group's main exposure to credit risk is the risk that management and performance fees cannot be collected and, therefore, credit risk is considered low. The Group holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Group and is limited to the Group's exposure to foreign currency exchange rate risk and hence to any assets held on the Group's Balance Sheet denominated in a foreign currency. The Groups Reporting Currency is GBP and all foreign currency assets are converted into GBP on a regular basis.

Background to the Group

Background

Crossbridge Capital LLP is incorporated in the UK and is authorised and regulated by the FCA as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm. Crossbridge Capital (UK) Ltd is incorporated in the UK and is a Financial Holding Company for Crossbridge Capital LLP.

The following entities are covered by the ICAAP:

- Crossbridge Capital LLP
- Crossbridge Capital (UK) Ltd

Crossbridge Capital LLP is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)).

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Group has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Executive Committee is the Governing Body of the Group and has the daily management and oversight responsibility. It meets quarterly and is composed of:

- Tarek Khlata
- Jean-Pierre Aoun

The Executive Committee is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Governing Body decides the Group's risk appetite or tolerance for risk and ensures that the Group has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Executive Committee for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Group.

Risk Framework

Risk within the Group is managed by use of the following:

- The Governing Body of the Group is responsible for the total process of risk management, as well as forming its own opinion on the effectiveness of the process.
- The Governing Body sets the risk strategy policies.
- The Group has a conservative approach to risk;
- The Group has identified its risks and recorded them in a 'Risk Register';
- The 'Risk Register' is reviewed at regular meetings of the executive committee
- The Group has undertaken scenario Analysis and Stress Tests on the most significant risks identified. This informs the Group how risk are likely to behave and what, if any, impact there is likely to be to our balance sheet; and
- The Group has in place an internal control framework to govern its processes and procedures and to mitigate any risks.

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 Rule

BIPRU 3 (Credit Risk)

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Group has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

Credit Risk calculation

| Credit Risk Capital Requirement | Rule | Capital Component |
|--------------------------------------|---------------|-------------------|
| Credit risk capital component | BIPRU 3.2 | £93,079 |
| Counterparty risk capital component | BIPRU 13 & 14 | £0 |
| Concentration risk capital component | BIPRU 10 | £0 |
| Total | | £93,079 |

| | Rule | Exposure | Risk Weight | Risk weighted exposure amount |
|--------------------------------------|------------------------------|-------------------|-------------|-------------------------------|
| National Government Bodies | BIPRU 3.4.2 | - | 0% | - |
| Banks etc long-term | BIPRU 3.4.36 | - | 50% | - |
| Banks etc short-term | BIPRU 3.4.39 | £287,461 | 20% | £57,492 |
| Exposure to Corporates/Debtors | BIPRU 3.4.52 | £1,035,114 | 100% | £1,035,114 |
| Past due item | BIPRU 3.4.96 | - | 100% | - |
| Fixed assets | BIPRU 3.4.127 | £10,201 | 100% | £10,201 |
| Prepayments | BIPRU 3.4.128 | £60,667 | 100% | £60,667 |
| Total | | £1,393,443 | | £1,163,474 |
| Credit Risk Capital Component | 8% of risk weighted exposure | | | £93,079 |

BIPRU 4 (Advanced Credit Risk Approach)

The Group does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 7 (Market Risk)

The Group has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

Overall Pillar 2 Rule

The Group has adopted the “Structured” approach to the calculation of its ICAAP Capital Resources Requirement.

The ICAAP assessment is drafted by the Financial and Compliance Officer and reviewed by external consultants.

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 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.

Since the Firm's Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process has not identified capital 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.

BIPRU 11.5.8**Disclosure:** Credit Risk and Dilution Risk

The Group is primarily exposed to Credit Risk from the risk of non-collection of advisory and sub-advisory fees. It holds all cash and performance 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.

BIPRU 11.5.12**Disclosure:** Market Risk

The Group has no potential trading book exposure.

Market Risk calculation

| | Rule | Position | Risk Weight | PRR | |
|---|-----------|----------------|-------------|-----|---------------|
| Interest rate position risk requirement | BIPRU 7.2 | £0 | 8% | | £0 |
| Equity position risk requirement | BIPRU 7.3 | £0 | 8% | | £0 |
| Commodity position risk requirement | BIPRU 7.4 | £0 | 8% | | £0 |
| Foreign currency position risk requirement | BIPRU 7.5 | £26,377 | 8% | | £2,110 |
| Option position risk requirement | BIPRU 7.6 | £0 | 8% | | £0 |
| Collective investment undertaking position risk requirement | BIPRU 7.7 | £0 | 32% | | £0 |
| Total | | £26,377 | | | £2,110 |

BIPRU 11.5.2**Disclosure:** Scope of application of directive requirements

The Group is subject to the disclosures under the UK CRDIII Implementing Regulations. Crossbridge Capital LLP is a subsidiary of Crossbridge Capital Ltd so therefore the Firm is a member of a UK Consolidation Group and reports on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3**Disclosure:** Capital Resources

The Group is a BIPRU Investment Group without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier 1 Capital comprises of Share capital and Audited Reserves.

| | |
|----------------------|-------------------|
| Tier 1 Capital | £1,110,000 |
| Deductions | £0 |
| Tier 2 Capital | £0 |
| Deductions | £0 |
| Capital Resources | £1,110,000 |
| Tier 3 Capital | £0 |
| Deductions | £0 |
| Total Capital | £1,110,000 |

BIPRU 11.5.5

This disclosure is not required as the Group has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.6

This disclosure is not required as the Group has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.7

This disclosure is not required as the Group does not have a Trading Book.

BIPRU 11.5.9

This disclosure is not required as the Group does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under [BIPRU 11.5.8R \(9\)](#).

BIPRU 11.5.10

Disclosure: Groups calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

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

BIPRU 11.5.11

Disclosure: Groups calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Group has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.15**Disclosure:** Non-Trading Book Exposures in Equities

This disclosure is not required as the Group does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16**Disclosures:** Exposures to Interest Rate Risk in the Non-Trading Book

Although the Group has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

BIPRU 11.5.17**Disclosures:** Securitisation

This disclosure is not required as the Group does not Securitise its assets.

BIPRU 11.5.18**Disclosure:** Remuneration

The Firm is a Remuneration Code Proportionality Level 3 Firm and has applied the rules appropriate to its Proportionality Level. The Governing Body is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))

| Business Area | Total Remuneration |
|----------------------|---------------------------|
| Wealth management | £371,638 |

Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))

| | Fixed | Variable |
|----------------------|-----------------|-----------------|
| Snr Management (SIF) | 96,000 | - |
| Other code staff | 253,138 | 22,500 |
| Total | 349,138 | 22,500 |
| | £371,638 | |