

# Ethical Capital Opportunities Advisors Limited

## Pillar 3 Risk Disclosure

### ***Introduction***

Ethical Capital Opportunities Advisors Limited (“ECO Advisors” or the “Firm”) is required by the 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.

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.

### ***Firm Overview***

ECO Advisors is registered in the UK and is authorised and regulated by the FCA as a MiFID Investment Manager and is categorized by the FCA for prudential regulatory purposes as a BIPRU firm.

The Governing Body of Firm ECO Advisors has the daily management and oversight responsibility. It generally meets quarterly and is composed of:

- Tristan Elwell
- Josh Gennet
- Christian Dass

The Governing Body 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 ECO Advisor’s risk appetite or tolerance for risk and ensures that the Firm 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 Governing Body for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of ECO Advisors.

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### ***Capital Resources and Requirements***

#### ***Capital Resources***

##### ***Pillar 1***

ECO Advisors was authorised by the FCA on 2<sup>nd</sup> January 2019 and held regulatory capital resources of £164,900 comprised of core Tier 1 capital.

The Firm has calculated its BIPRU capital resources in accordance with GENPRU 2.2. The Firm's capital requirements are the greater of:

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

As at accounting reference date 31 December 2019, the Firm's Pillar 1 capital requirement was £66,718

#### ***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 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 Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process identified a slight increase in capital to be held *over* and *above* the Pillar 1 requirement - £67,780 – pursuant to its forecast wind down requirement, the Firm has adopted its Pillar 2 capital requirements as its capital requirement going forward, until the point at which its Pillar 1 capital requirement exceeds this figure. Nevertheless, no additional capital injections are considered necessary at this stage, and the Firm expects to continue to be in compliance with capital adequacy and liquidity requirements.

#### ***Risk Management***

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 Firm's members.

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 provides advice to is closely monitored. The results of the compliance monitoring performed is reported to the partners by the Compliance Officer.

#### ***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.

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The Firm has identified several 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 appropriate insurance policies and business continuity plans.

### ***Credit 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 receivable is related to investment management activities. The Firm believes its credit risk exposure is limited since the Firm's revenue is ultimately related to management fees received from funds. These management fees are drawn throughout the year from the funds managed. Other credit exposures include bank deposits and office rental deposits.

The Firm undertakes periodic impairment reviews of its receivables. All amounts due to the Firm are current and none have been overdue during the year. As such, due to the low risk of non-payment from its counterparties, management is of the opinion that no provision is necessary. A financial asset is overdue when the 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.

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 the Firm does not make use of an external credit rating agency, it 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%.

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The table below sets forth the Firm's credit exposures and corresponding capital resource requirements as at the date of its ICAAP assessment:

Total capital	£164,900
Base Capital (a)	£42,735
Fixed overheads requirement(b)	£66,718
Credit risk + Market Risk (c)	£11,100
Total Capital requirements (a) or (b) or (c)	£66,718
Surplus	£98,182

Solo Basis	Credit Exposure	Risk weighted Exposure
National Governments	£0	£0
Tangible fixed assets	£0	£0
Due from affiliates – within 3 months	£0	£0
Due from affiliates – after 3 months	£0	£0
Cash at bank	£238,000	£47,600
Prepayments	£0	£0
Other	£0	£0
	-----	-----
Total	£238,000	£47,600
	=====	=====
<b>Credit Risk Capital Component</b> (8% of risk weighted exposure)		<b>£3,808</b>

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### Market Risk

Since the Firm holds no trading book positions on its own account the Firm's exposure to foreign currency risk is not significant. Its primary exposures are to cash accounts held in currencies other than sterling – namely USD, Swiss Francs and EUR. The Firm's total market risk capital requirement is £7,291.60.

### Remuneration Disclosures

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 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, as the Remuneration Committee, is directly responsible for the overall remuneration policy which is reviewed annually. Variable remuneration is adjusted in line with capital and liquidity requirements as

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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 19C is adhered to with respect to Total Compensation where applicable.

In accordance with SYSC 19C, the Firm makes the following quantitative remuneration disclosure:

### **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 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 the Firm's three remuneration code staff (all of whom are also senior management of the Firm) was EUR 19,200 (as at accounting reference 31<sup>st</sup> December 2019).