

Pillar 3 Disclosures
Copper Street Capital LLP
December 2018

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Background

The purpose of this document is to set out the Pillar 3 disclosures of Copper Street Capital as of December 2018.

The Capital Requirements Directives (CRD) for the financial services industry is a supervisory framework in the European Union which reflects the Basel II and Basel III rules on capital measurement and capital standards. The capital framework consists of three Pillars:

- Pillar 1 determines the minimum capital requirements of firms to cover credit, market, and operational risk. These comprise: base capital resources requirements; credit risk and market risk capital requirements; and the fixed overhead requirement.
- Pillar 2 requires firms to analyse the risks to the business and then consider whether the risks are mitigated to an appropriate standard. If the firm feels that the risks are not adequately mitigated then they should allocate capital against those risk. Stress and scenario tests are conducted to ensure that the processes, strategies and systems are comprehensive and robust and that the allocation of capital is sufficient
- Pillar 3 complements Pillars 1 and 2 and improves market discipline by requiring firms to disclose information on their capital resources and requirements, risk exposures and their risk management framework.

The CRD came into effect on 1 January 2007, establishing a revised regulatory capital framework governing the amount and type of capital that must be maintained by credit institutions and investment firms based on the provisions of the Basel II Capital Accord.

CRD IV, effective from 1 January 2014, implements the Basel III agreement in the European Union. It was designed primarily for credit institutions and banks but is also applicable to certain investment firms. Copper Street Capital does not fall into this category and remains subject to the CRD III legislation.

The CRD is implemented in the United Kingdom by the UK Regulators, The Prudential Regulatory Authority (PRA) and The Financial Conduct Authority (FCA).

Basis of Disclosures

Copper Street Capital's Pillar 3 disclosures are set out in this document as required by the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), specifically BIPRU 11 .3.3R.

Unless otherwise stated, all figures are based on the audited Annual Reports for Copper Street Capital for the year ended 31st December 2017.

Frequency of Publication

The disclosures will be reviewed at least annually and, if appropriate, more frequently. Disclosures will be published as soon as practicable after the publication of the Annual Reports and the finalisation of Copper Street Capital's Internal Capital Adequacy Assessment Process (ICAAP).

Verification

The information contained in this disclosure has not and is not required to be audited by Copper Street Capital's external auditors and does not constitute any form of financial statement. The information should not be relied on in making any judgement on Copper Street Capital.

Media & Location of Publication

The disclosures are published on the Copper Street Capital's corporate website – www.copperstreetcapital.com

Scope and application of directive requirements

This document covers Copper Street Capital LLP, an FCA regulated entity (FCA: 713395) that is categorised as a BIPRU firm. The Firm is subject to the disclosure regime under the UK CRD III Implementing Regulations.

The Firm is not however a member of a UK Consolidation Group and does not report on a consolidated basis for accounting and prudential purposes.

Management objectives and policies

Copper Street Capital's risk management objectives and policies are supported by a risk management framework which establishes the governance arrangements and the principles of how risk is to be identified, assessed, quantified, monitored and controlled. The key risk management responsibilities are allocated as shown below:

Governance Arrangements

Boards of Directors

The responsibility for the framework of risk governance and management lies with the Supervisory Board of Directors and Partners. The Copper Street Capital Supervisory Board is responsible for agreeing risk appetite on both a solo and a consolidated basis; and ensuring that risk is monitored and controlled effectively. The Copper Street Capital Supervisory Board is supported by the Valuation, Risk and Compliance Committee (VRCC) which provides more detailed oversight across all risks faced by Copper Street Capital. Similarly, the Copper Street Capital Supervisory Board is supported in fulfilling its supervision and monitoring responsibilities in respect of the internal control system by the external third party Compliance Advisors engaged.

Risk Committee

The VRCC supports the Copper Street Capital Supervisory Board in ensuring that it has an adequate understanding of the material risks, overseeing the proper management of these risks, and ensuring the adequacy of Copper Street Capital's capital relative to these risks. The VRCC makes recommendations to the Supervisory Board on the risk appetite and related risk management policies and evaluates whether the risk associated with new services is acceptable. The VRCC works closely with the risk owners to understand risk triggers, tolerances, and necessary actions on the part of management to control risk. Ultimately, the VRCC is responsible for executing mitigating action where the risk appetite is exceeded.

Risk Owners

The day to day management of risk lies with the individual risk owners. The risk owners are accountable for all risks assumed in their area of responsibility and for promoting an appropriate risk management discipline. The risk owners via the Chief Risk and Compliance Officer regularly report to the VRCC on the status of their risks, escalating any breaches of the risk tolerance and executing remediation action to bring the risk within acceptable levels.

Risk Control Functions

Independent assessment and monitoring of risk is provided by various risk control functions including: Compliance; Human Resources and Copper Street Capital's Risk Management. The control functions play a role in supporting the operational areas to manage their risks effectively.

Risk Management Framework

Copper Street Capital's risk management framework is composed of six pillars:

- **Strategy pillar:** defines Copper Street Capital risk appetite statement.
- **Governance pillar:** determines responsibilities for risk management aimed at clear accountability and delegation of authority. It defines the roles of the different parts of the organisation in the risk management process.
- **Identification and assessment pillar:** identifies, categorises, describes, assesses and prioritises risks.
- **Quantification pillar:** quantifies the impact of specific risks using data from a range of internal and external sources.
- **Mitigation pillar:** establishes and coordinates the policies and actions aimed at reducing the likelihood of risks crystallising and reducing their impact.
- **Monitoring and reporting pillar:** defines the key risk indicators (KRIs) used to monitor risks and establishes the form, timing, and governance of reporting.

The framework ensures that management resource is directed towards those risks which pose the greatest threat at any one time.

Copper Street Capital seeks to manage all the major risks that arise from its operations.

For the purpose of this disclosure, all the major sources of risks referred to in GENPRU 1.2.30(2) R have been considered. Only operational risk, business risk, credit risk and market risk are considered major. All of the remaining categories are either not applicable to Copper Street Capital or, in the case of liquidity risk is not considered to be major.

The ways in which the three major categories of risk manifest themselves, and the policies and practices in place to manage them is described below.

(1) Operational Risk

The majority of the risk management efforts are focused on operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Copper Street Capital sub-divides the operational risk category by event type: clients, products and business practices; execution, delivery & process management; and internal and external fraud.

A variety of techniques are used to manage operational risk, including monitoring key risk indicators and internal controls and the analysis of historical loss events. Copper Street Capital maintains a comprehensive programme to cover the risks associated with business interruption. Specialist third party Information Technology support functions provide expertise in risk mitigation focusing on areas such as information security; compliance; legal; and business continuity management. The key operational risks are developed into scenarios for capital modelling purposes as part of the Pillar 2 assessment.

(2) Business Risk

Business risk is the risk caused by uncertainty in the macroeconomic environment impacting Copper Street Capital's ability to carry out its business plan or desired strategy. Copper Street Capital adopts conservative assumptions in all its business planning. There is a business approval process for new Strategic Investments and senior management regularly review company profit and loss data. Business risk includes business disruptions and system failures. Scenario testing is used to assess Copper Street Capital's vulnerabilities to a downturn in revenue and to consider the mitigating actions which could be implemented to reduce the effects on its capital adequacy.

(3) Credit Risk

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet its contractual obligations. Copper Street Capital is exposed to two types of credit risk: counterparty credit risk and credit concentration risk.

Copper Street Capital's counterparty credit risk arises primarily from its cash deposits with financial institutions and from its trade receivables. The risk is managed through adherence to internal treasury guidelines which include the selection of a diversified number of high quality credit institutions, and through operating active credit control processes.

Credit concentration risk is a component of credit risk, arising from an exposure to a counterparty (or group of connected counterparties) that is so large that it could threaten the solvency of the institution if the counterparty were to encounter financial management problems. The risk is mitigated by a diversified number of Prime Brokers meaning there is no significant exposure to any one individual Prime Broker. The exposure has various mitigating controls in place which are considered in the quantification of the Pillar 2 assessment.

Capital Resources

The following shows Copper Street Capital's capital requirement and capital adequacy at 31st December 2018:

PILLAR 1 CAPITAL REQUIREMENT	£000s
Credit risk requirement	168
Market risk requirement	13
Total of credit and market risk	181
Fixed overhead requirement	682
PILLAR 1 capital requirement	682

Compliance with rules in BIPRU and the Pillar 2 rule requirements

Capital Adequacy

Copper Street Capital is categorised as a BIPRU firm. In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), Copper Street Capital's Pillar 1 capital requirement is the fixed overhead requirement £682,000.

Copper Street Capital's Pillar 2 capital requirement £181,000 is assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP) described in the paragraph below. The current Pillar 2 requirement has been determined as being lower than Pillar 1 minimum capital requirement and, for this reason; the Pillar 1 minimum requirement is adopted as Copper Street Capital's current capital requirement.

The ICAAP is Copper Street Capital Supervisory Board's assessment of the required level of capital, consistent with its risk appetite and business plans. The assessment focuses on the major risks faced and on the behaviour of those risks under stressed scenarios. For each major risk, an assessment is made of the potential loss it could cause were it to materialise under a severe scenario. The assessment is performed gross and net of mitigating systems and controls, and after incorporating the effects of insurance. A variety of techniques are used to support the potential loss figures, including value at risk modelling and historic loss experience. Stress and scenario tests are used to consider the impact based on a variety of events.

Copper Street Capital's capital adequacy position is monitored by the Chief Operating Officer and reported to the FCA on a quarterly basis. Based on these reviews, the Copper Street Capital Supervisory Board is able to consider the need to change any capital forecasts and plans accordingly. The ICAAP is formally reviewed on an annual basis or more frequently if there is a material change in the internal or external business environment. The ICAAP is formally approved and signed-off via Copper Street Capital's Supervisory Board.

Remuneration

Copper Street Capital is subject to the FCA's BIPRU Remuneration Code. This section provides further information on Copper Street Capital's remuneration policies and governance, as well as quantitative information on remuneration.

Decision making process for determining remuneration policy

The Remuneration Committee of Copper Street Capital meets regularly throughout the year and, inter alia, is responsible for:

Determining, and agreeing with the Supervisory Board, the policy for the remuneration of Copper Street Capital's employees that: is consistent with and promotes effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk; is in line with the business strategy, objectives, values and long-term interests of Copper Street Capital; and includes measures to avoid conflicts of interest.

Undertaking a periodic review, at least annually, of the remuneration policy and the list of FCA BIPRU Remuneration Code Staff.

Approving the remuneration packages of all FCA BIPRU Remuneration Code Staff annually. No individual is involved in determining or approving their own remuneration. This includes base salary, bonuses and performance-related payments, discretionary payments, long-term incentive awards.

Composition of the Remuneration Committee

The membership of the Remuneration Committee includes at least one independent non-executive directors.

The Remuneration Committee is supported, where appropriate, by Copper Street Capital's Executive Chairman, the Chief of Staff and the Partners.

Link between pay and performance

Copper Street Capital discretionary bonus award annually rewards and incentivises excellent performance and aligns the success of Copper Street Capital with that of the employee. Bonuses are intended to reflect contribution to the overall success of Copper Street Capital and to recognise employees who take a long-term view of Copper Street Capital development.

Employees are assessed throughout the year against a balanced scorecard approach that considers both financial metrics and non-financial objectives as well as behavioural and technical competencies. The goal setting framework covering: financials and people ensures a holistic approach to measuring and rewarding performance.

The Remuneration Committee annually reviews the balance between fixed and variable pay for executive roles.

The table below provides an analysis of the remuneration provided to the six employees that were categorised as Code Staff during December 2018 (for the period they were categorised as Code Staff during the year), as well as the total remuneration for Copper Street Capital for 2018.

Classification	Number of Staff	Cost (£)
Employee Total Fixed Remuneration	11	1,155,000
"Code Staff" Total Fixed Remuneration (Employees and Partners)	4	530,000
All Copper Street (Employees + Partners)	13	1,335,000