

# Absolute Return Investment Advisers (ARIA) Limited

## Pillar 3 Disclosure

February 2020

Absolute Return Investment Advisers (ARIA) Limited (the "Firm") was incorporated with limited liability in England and Wales on 01 December 2009 and is authorised and regulated by the Financial Conduct Authority (the "FCA"). The Firm acts as a platform provider, financial planning and advisory firm and provides portfolio management solutions, as well as has been appointed as a portfolio manager to a Self Managed UCITS investment scheme ("the Funds").

Pillar 3 disclosures fulfil the Firm's obligation to disclose to market participants key pieces of information on a firm's capital, risk exposures and risk assessment processes.

The Firm is categorised as a limited licence firm by the FCA for capital purposes.

### RISK MANAGEMENT OBJECTIVES AND POLICIES

The Directors of the Firm determine its business strategy and the risk appetite. In conjunction with the Compliance Manager, they have designed and implemented a risk management framework that recognises the risks that the business faces. The Directors also determine how such risks may be mitigated and assess on an on-going basis the controls and procedures in place to manage those risks. The Directors and Compliance Manager meet on a regular basis and discuss projections for profitability, liquidity, regulatory capital, business planning and risk management.

As an investment manager, the Firm considers the following as key risks to its business:

**Business risk** – This risk represents a fall in assets under management on the platform, in the Funds, or the termination of portfolio management or financial planning mandates, which may reduce the fee income earned by the Firm and therefore hinder its ability to finance its operations and reimburse its expenses. Business risks are assessed and mitigated as part of the Internal Capital Adequacy Assessment Process ("ICAAP").

**Operational risk** – This risk covers a range of operational exposures from risk of trading errors to risk of breach of a Fund's or Model Portfolios investment objectives. Legal and reputational risks are also included within the category of operational risk.

Operational risks and mitigants are assessed as part of the ICAAP.

**Credit risk** – Credit risk is the risk of loss if a client or counterparty defaults on its payment obligations in a transaction. We do not provide margin or credit to clients for trading purposes and we will only engage with counterparties who are creditworthy and manage exposure by setting appropriate limits. The Accounts Team monitors overdue accounts in the case of outstanding invoices and recommends mitigating action and recovery, in discussion with the Finance Director.

**Market risk** - Market risk is the risk in revenue streams and value of assets under management arising from fluctuations or adverse movement in market factors such as interest and exchange rates, prices, economic recessions and depressions, or volatilities. The Firm will seek to minimise its exposure to market risk through diversifying its revenue streams and taking relevant measures to reduce the impact of unforeseen circumstances outside of its control. Market Risk is inclusive of Interest Risk. Interest Risk is the risk associated with fluctuations in the country's interest rate.

Although the Firm's interest income is relatively low, this risk focuses on the possibility of further deterioration of interest income in future periods.

**Legal and Regulatory Risk** - Regulatory risk is the risk associated with the failure to meet the Firm's legal obligations from legislative, regulatory or contractual perspectives. This includes risks associated with the failure to identify, communicate and comply with current and changing laws, regulations, rules, regulatory 'guidance', and codes of conduct. It also includes anti-money laundering and terrorist-financing risks.

The Firm will ensure compliance with regulatory requirements and industry practice to avoid supervisory intervention and protect our reputation and relationship with the Regulator. The Firm seeks to operate with the highest ethical and legal standards and integrity. All employees are responsible for managing day-to-day legal and regulatory risks, while Compliance and Anti-Money Laundering functions assist by providing advice and oversight. The Firm's Code of Conduct sets the 'tone from the top' for a culture of integrity throughout the Firm. While it is not possible to eliminate regulatory risk, the Compliance department works closely with all other departments to ensure that legal and regulatory risks are reduced to a minimum through an ongoing review system.

## **II. CAPITAL RESOURCES**

On 1st January 2014, the European Union established a revised framework governing the amount and nature of capital that credit institutions and investment firms must maintain. The Directive is commonly known as CRD IV and is directly binding on firms in the UK.

The applicable resulting regulations are:

- The Capital Requirements Regulation – (CRR)
- Prudential Sourcebook for Investment Firms – (IFPRU)

The framework consists of three pillars:

PILLAR 1 - The minimum capital requirements of firms to cover credit, market and operational risk;

PILLAR 2 - Designed to complement the existing Pillar 1 requirements by assessing the need to hold additional capital under a more risk-based assessment; and

PILLAR 3 - A set of disclosure requirements which enable the market to assess information on firm's risks, capital and risk management procedures. The detailed assessment of the requirements under Pillars 1 and 2 are carried out within the Internal Capital Adequacy Assessment Process (ICAAP).

This is the Pillar 3 disclosure for the Firm as at 31ST March 2018 made in accordance with the CRR and the Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms (IFPRU) which is required to be made on an annual basis.

As a limited license IFPRU 50k firm, the Firm is required to hold regulatory capital equal to the highest of:

- Pillar 1 x FCA Internal Capital Guidance (ICG), currently 169%
- Pillar 2 Capital Requirements

Pillar 2 capital is calculated by the Firm as representing any additional capital to be maintained against any risks not adequately covered under the requirement in Pillar 1 as part of its ICAAP.

The capital resources of the business comprise of Tier 1 capital with no deductions.

It is the Firm's experience that its capital requirement normally consists of the FOR, as although market and credit risks are reviewed regularly the Firm's exposure to such risks is limited. The Directors monitor expenditure on a regular basis and take into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made during the year.

Having performed the ICAAP it is the Firm's opinion that no additional capital is required in excess of its Pillar 1 capital requirement.

### **III. MANAGEMENT OF THE ICAAP**

The approach of the Firm to assessing the adequacy of its internal capital to support current and future activities is contained in the ICAAP. This process includes an assessment of the specific risks to the Firm and the internal controls in place to mitigate those risks. Finally, an assessment is made of the probability of occurrence and the potential impact, in order to arrive at a level of required capital, as relevant. The Firm stress tests future impact by considering a number of different scenarios, its breakeven point, and, in order to address the worst-case scenario, the costs to close. The Firm's ICAAP is formally reviewed by the Directors at least once per annum but will be revised should there be any material changes to the Firm's business or risk profile.

### **IV. REMUNERATION CODE**

The Firm is subject to FCA Rules on remuneration contained in the FCA's Remuneration Code located within the SYSC Sourcebook of the FCA's Handbook.

The Firm has implemented a Remuneration Policy ("the Policy"), which covers an individual's total remuneration, fixed and variable, to ensure that it complies with the regulators requirements and to ensure its employment remuneration arrangement promote effective risk management and do not encourage excessive risk taking.

The Firm falls within the FCA's fourth proportionality tier and as such this disclosure is made in line with the requirements for a Tier 4 Firm.

1. *Summary of information on the decision-making process used for determining the firm's remuneration policy including use of external benchmarking consultants where relevant.*

The Firm's board of directors have approved the Policy based on the principles laid down by the FCA. The Policy will be reviewed in accordance with the Firms compliance monitoring programme on an annual basis or where a significant change to the business occurs which requires an update to the Firms ICAAP. The Firm has not currently appointed an independent remuneration committee due to its size and the nature of the business.

2. *Summary of how the firm links between pay and performance.*

Individuals are rewarded based on their contribution to the business. This reward is in the form of a discretionary payment which is approved by the Board taking into consideration factors such as performance, reliability and business contribution.

3. *Aggregate quantitative info on remuneration broken down by significant business division (where such business divisions exist).*

Due to there being only one business area within the firm it is not possible for the aggregate to be broken down.

4. *Aggregate quantitative information on remuneration, for staff whose actions have a material impact on the risk profile of the firm.*

The Firm has identified current members of staff who satisfy the definition of “Code Staff” and informed them of what this entails. The aggregate level of remuneration earned by such staff is disclosed in the audited financial statements.

Such disclosure may be omitted where the Directors feel that the information could be regarded as prejudicial to transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data.