Northcross Capital LLP Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of Northcross Capital LLP ("the Firm") 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 CRD III 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 III. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm makes Pillar 3 disclosures at least annually. This disclosure is based on the Firm's audited results for the year ended 31 March 2021.

Media and Location

The disclosure is published on the Firm's website.

Verification

The information contained in this document has not been audited by the Firm's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

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

Confidentiality

The Firm 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 Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm 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 of Requirements, Capital Adequacy and Pillar 2 Risk Assessment

Requirements

The Firm is required to implement all three pillars of CRD:

- Pillar 1 – Quantitative rules-based capital adequacy calculations which determine the minimum capital requirements for the Firm based on its FCA categorisation.

- Pillar 2 – Qualitative risk-based approach to assessment of capital adequacy which requires the preparation of an ICAAP that assesses the Firm's major risks and the controls in place to mitigate those risks.

- Pillar 3 – Public disclosure of regulatory capital adequacy and regulatory KPIs contained in the ICAAP which will allow market participants to assess key pieces of information on the Firm's capital, risk exposures and risk assessment processes.

Capital Adequacy

- Northcross has surplus regulatory capital even after taking into account the buffer for Pillar 2 considerations (see below).

- Northcross has significant cash reserves, covering more than 6 months of fixed expenses.

Pillar 2 Risk Assessment

The Firm has a risk framework (described below) in place and has conducted a comprehensive risk identification exercise to ensure all significant risks have been identified and recorded and that mitigation actions are properly considered by the Executive Committee and implemented as required.

The Firm has assessed its risks in its ICAAP under the headings: operational risk; business risk; credit and other financial risk; and market risk. The most recent ICAAP was approved by the Executive Committee on 15 December 2021.

The Firm's income is dependent upon the profitability of the NX Managed Programs. As such, the Firm's capital adequacy and cashflow requirements are measured by the amounts of operational, business, credit and market risks associated with the Firm's own business but also with consideration of the risks inherent to the NX Managed Programs that could impact the Programs and reduce the Firm's income or cause it other costs.

In all reasonably foreseeable risk scenarios, the consequence should be no worse than to cause an orderly closure of LLP's business with no income from the point of closure. Even though this eventuality is considered unlikely, the Firm plans its capital and cash resources based on such a consequence. To take account of this scenario, the outcomes of the risk analysis and stress tests carried out as part of the December 2021 ICAAP were:

- to include a regulatory capital requirement "buffer" of £108,519;
- to adopt a policy to maintain total reserves (i.e. capital plus unallocated profits) of at least £1,000,000; and
- to continue with the Firm's policy of retaining cash balances at a level to cover at least 6 months of fixed operating expenses.

The combination of the Firm's capital and its policies on cash flow and reserve maintenance is considered by the Executive Committee to be sufficient to cover all reasonably foreseeable scenarios.

Background to the Firm

Under the headline "Background to the Firm", the first two sentences should be amended to: "The Firm is incorporated in the UK and is authorised and regulated by the FCA as a MiFID Investment Management Firm. The Firm's activities give it the categorisation of a "BIPRU firm".

The Firm is a solo regulated entity in the UK, is neither a parent undertaking nor a subsidiary undertaking and prepares an ICAAP and this disclosure on an individual basis.

The Firm's main business activity is investment advisory, portfolio management and trade execution services acting as agent for a series of client programs (the "NX Managed Programs"). The NX Managed Programs issue commercial paper (i.e. short term financing instruments) through third party placement agents or dealers to institutional investors and invest the proceeds primarily with a list of approved highly rated banks in short term secured financing contracts (i.e. repo agreements and similar) in order to generate a return for the Program on a portfolio basis.

BIPRU 11.5.1 - Disclosure: Risk Management Objectives and Policies

Risk Management Objective
The Firm has a risk management objective to design and implement governance structures and systems and controls to mitigate risk within its risk appetite.

Governance Framework
The Executive Committee is the Governing Body of the Firm and has daily management and oversight responsibility. It meets formally at least every quarter. All individual Members of the Firm sit on the Executive Committee.

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 Executive Committee decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, on-going process to identify risks, to measure their potential impact and to ensure that such risks are actively managed. The Firm's Members are 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 Firm.

Risk Framework
The Firm's Risks are managed by use of the following:

- The Executive Committee oversees all risks and decides how they are to be managed;
- The Firm has a conservative approach to risk;
- The Firm has identified its risks and recorded them in the ICAAP;
- The ICAAP is reviewed as required at meetings of the Executive Committee;
- The Firm has undertaken Scenario Analysis and Stress Tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to the Firm's balance sheet;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate risks;
- The Firm's ICAAP policies are an extension of its client Program Operating Manuals and Northcross Operating Policies that are separately documented;
- The projections of cash and capital requirements are driven by the most conservative assumption; closure of all NX Managed Programs;
- The Firm's requirements are to maintain adequate regulatory capital and to cover cash needs through the closure period given the typical commercial paper maturity profile of each Program
- The Firm has recently adopted a policy to retain cash balances at a level to cover at least 6 months of fixed operating expenses (i.e. £868,152) and to maintain total reserves (i.e. capital plus unallocated profits) of at least £1,000,000;
- The ICAAP policy will be updated every 12 months unless it is necessary to address the policy on a more frequent basis.
- The Firm is assisted by Duff & Phelps in completing the ongoing compliance monitoring.

BIPRU 11.5.4 - Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

BIPRU 3

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

Credit Risk calculation

At 31 March 2021

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£89,501
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		**£89,501**

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£83,742	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£1,140,346	20%	£228,069
Exposure to Corporates/Debtors	BIPRU 3.4.52	£154,135	100%	£154,135
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£0	100%	£0
Accrued Investment management fees	BIPRU 3.4.128	£736,559	100%	£736,559
Total		**£2,114,783**		**£1,118,764**
Credit Risk Capital Component	8% of risk weighted exposure			**£89,501**

BIPRU 4

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

BIPRU 6

The Firm, being a Limited Licence Firm is not subject to the Pillar I Operational Risk Requirement and, therefore, this is not applicable.

BIPRU 7

The Firm has Non-Trading Book potential exposure only (BIPRU 7.4, 7.5).

BIPRU 10

The Firm is not subject to the Large Exposure Rules at BIPRU 10 and, therefore, no disclosure on this is required.

Overall Pillar 2 Rule

The Firm has adopted the "Pillar I plus" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Executive Committee and amended where necessary, on a quarterly basis or when a material change to the business occurs. The Executive Committee reviews and endorses the risk management objective each quarter or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

BIPRU 11.5.8 - Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of investment advisory fees. It holds all cash and performance fee balances with Banks assigned high credit ratings. Consequently 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 Firm has Non Trading Book potential exposure only (BIPRU 7.4 & 7.5).

Market Risk calculation
At 31 March 2021

	Rule	Position	Risk Weight	PRR
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£117,077	8%	£9,366
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		**£117,077**		**£9,366**

BIPRU 11.5.2 - Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the CRD III Implementing Regulations. However, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3 - Disclosure: Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Tier I Capital comprises Eligible Partnership Capital and Audited Reserves.

At 31 March 2021, the Firm's Capital Resources are as follows:

Tier I Capital	£1,000,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
Total Capital Resources	**£1,000,000**

BIPRU 11.5.5

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

BIPRU 11.5.9
This disclosure is not required as the Firm 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:** Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach
This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5).
BIPRU 11.5.11 **Disclosure:** Firms calculating Risk Weighted Exposure amounts using the IRB Approach
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by BIPRU 11.5.4R (3).
BIPRU 11.5.13 **Disclosure:** Use of VaR model for calculation of Market Risk Capital Requirement
This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.
BIPRU 11.5.15 **Disclosure:** Non-Trading Book Exposures in Equities
This disclosure is not required as the Firm 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 Firm 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 Firm 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 Tier. The Executive Committee 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)) For the year ended 31 March 2021

Business Area Remuneration	Total
Investment Management	£7,094,091

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

Type of Remuneration Code Staff	Total Remuneration
Senior Management (SIF)	£7,094,091
Other Remuneration Code Staff	£0
Totals	**£7,094,091**