MIFIDPRU 8 Disclosures - unaudited

Background

Emso Asset Management Limited ("Emso UK" or the "Firm") is incorporated in the United Kingdom and is authorised and regulated by the FCA as an investment management firm. The Firm's FCA registration number is 229812.

The Firm is a subsidiary of White Park Limited. ("WPL"). The Firm acts as investment advisor for a number of Funds, for which the firm holds the relevant regulatory permissions. The Firm is an investment management firm and has no trading book exposures. The Firm is a solo regulated entity, does not hold client money or client assets, but may control client money if the necessary requirements are met.

The Firm's activities give it the categorisation of a non-SNI MIFIDPRU investment firm.

Overview

The Firm makes MIFIDPRU 8 disclosures annually as at the Firm's accounting reference date. The information contained in these disclosures is required per the Financial Conduct Authority ("FCA") Handbook and disclosed publicly as an unaudited additional to the Firm's annual financial statements. These disclosures do not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Per MIFIDPRU 8.1.8. the Firm must provide a level of detail in its qualitative disclosures that is appropriate to its size and internal organization, and to the nature, scope, and complexities of its activities.

Per MIFIDPRU TP 12.6 the Firm is not required to publish information regarding its Risk Management Objectives and Policies this year, as the Firm's relevant performance year ended on 31st December 2022.

Per MIFIDPRU TP 12.8 the Firm is not required to publish the disclosures specified in MIFIDPRU 8.6 as the Firm's relevant performance year began before and ended after 1st January 2022.

MIFIDPRU 8.2 – Risk Management Objectives and Policies

MIFIDPRU 4 Own Funds Requirements

The Overall Financial Adequacy Rule (OFAR) establishes the standard that the FCA applies to determine whether a MIFIDPRU investment firm has adequate financial resources. The amount and quality of own funds and liquid assets that each firm holds will vary according to its business model and operating model, the environment in which it operates, and the nature of its internal systems and controls.

As per MIFIDPRU 7.4.7R, the Firm ensures that, at all times, it holds own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that it is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harms and can be wound down in an orderly manner. The Own Funds Requirement (OFR) is presented as the highest of the Permanent Minimum Requirement (PMR), Fixed Overhead Requirement (FOR), and the K-Factor Requirement (KFR).

The Firm assesses and recalculates the PMR, FOR, and KFR values, at least every quarter, to ensure that the required amount of own funds are held. The Firm additionally acknowledges the MIFIDPRU 7.6.11R requirement to notify the FCA immediately in the event that own funds drop below the relevant threshold, in particular the early warning indicator of 110% of the Own Funds Threshold Requirement, noting that the Firm's shareholder agreement specifies a 25% buffer above the noted capital requirement. These levels are actively monitored by the Firm's senior management, who can arrange for further capital as needed.

MIFIDPRU 5 Concentration Risk

The Firm does not hold client money or client assets, and as such is not subject to MIFIDPRU 5.3 to 5.10 relating to concentration risk. The Firm's senior management actively monitor and control all sources of concentration risk, including on and off-balance sheet items, employing sound administrative and accounting procedures and robust internal control mechanisms.

MIFIDPRU 6 Liquidity

The Basic Liquid Assets Requirement (BLAR) states that firms must hold an amount of 'core liquid assets', in pound sterling, equal to the sum of one third of the amount of its FOR, and 1.6% of the total amount of any guarantees provided to clients. The aim of this requirement is to ensure that all firms maintain adequate stock of a particular type of liquid asset that can be easily converted into cash, in order to meet short-term obligations under stressed conditions.

The Firm's main income source comes from management and performance fees, which are predominantly denominated in US Dollars, however, the largest expense faced by the Firm is in the form of wages for its personnel and rent, the bulk of which is paid in pound sterling. The Firm's senior management regularly forecasts the required pound sterling amount, ensuring that there is always enough cash to fulfil obligations. A portion of the expenses relate to the Firm's wholly owned subsidiary, Emso Asset Management US LLC ("Emso US"), and these expenses are thus incurred in US Dollars. For these expenses, the Firm avails of MIFIDPRU 6.3.4R, utilising US Dollar denominated liquid assets up to a proportion of the fixed overheads incurred in US Dollars. Regulatory capital calculations are prepared on a monthly basis, splitting the relevant expenditure for both Emso UK and Emso US (the "Group") into the proportionate currency amounts to ensure that a surplus of core liquid assets is maintained over the BLAR.

MIFIDPRU 8.3 – Governance Arrangements
The governance of the Firm is effected by its Board of Directors (the "Board") which is comprised of two Senior Managers, who are principals of the Firm, and a non-executive director. The Board members do not hold any other directorships in organizations that pursue predominantly commercial objectives. The Board is ultimately responsible for the Firm's governance arrangements and ensure effective and prudent management of the Firm and the management of conflicts of interest. The Board meets at least quarterly to review and sign-off on key policy documents (such as the Remuneration Policy), financials, and risk assessments (including those relating to capital adequacy as detailed under the "Own Funds Requirement" section below). The quarterly meetings of the Board may involve representatives of the different business functions in Emso, who serve as a forum to update the Board on matters of note, and provide them information needed to oversee the business, as well as to discuss decisions that may need to be taken. The Board is responsible for the certification of the three Senior Managers under the Senior Managers and Certification Regime as being fit and proper to perform their certified activities. The Chief Executive Officer, who is one of two Senior Managers sitting on the Board, is responsible for the annual certification process for employees of the Firm who undertake certified functions. The other Senior Manager and principal on the Board is directly responsible for the management of the Firm's Investment Professionals. The third Senior Manager and principal, the Chief Compliance Officer, is responsible for the Firm's obligations in respect of notifications and training of Conduct Rules, as well as, policies and procedures for countering the risk of financial crime. The Firm does not have an explicit policy or targets to promote diversity on the Board. The Firm is, however, committed to a policy of equal opportunity and non-discrimination, as detailed further in the Firm's Employee Handbook, which is intended to provide equal employment and advancement opportunities to all individuals, and prevent any discrimination based on personal characteristics. The Firm has clearly documented policies and procedures, which are designed to minimise risks to the Group and all staff are required to confirm that they have read and understood them. Given the Firm's nature, size, and complexity, it does not have an independent risk management function and is not required to have a risk, remuneration, or nomination committee in accordance with MIFIDPRU 7.1.4. However, although the Board is ultimately responsible for the management of risks across the Group and their individual responsibilities are clearly defined in their Statements of Responsibility, the Board has delegated the day-to-day risk management to the Firm's Risk Committee ("RC") as being responsible for reporting of various risk management matters including operational issues. The principal risks faced by the Group from time to time will be identified and monitored by the RC which shall report to the Board in respect of such risks. The RC provides advice to the Board on all risks associated to the Firm's business with focus on business, portfolio, and operational risk management issues.

MIFIDPRU 8.4 – Own Funds			
Composition of regulatory own funds			
		Item	**Amount (USD Thousands)**
	1	**OWN FUNDS**	**9,086**
	2	**TIER 1 CAPITAL**	**9,086**
	3	**COMMON EQUITY TIER 1 CAPITAL**	**9,086**
	4	Fully paid up capital instruments	740
	5	Share premium	2,766
	6	Retained earnings	9,027
	7	Accumulated other comprehensive income	-
	8	Other reserves	-
	9	Adjustments to CET1 due to prudential filters	-
	10	Other funds	-
	11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(3,447)
	19	CET1: Other capital elements, deductions and adjustments	-
	20	**ADDITIONAL TIER 1 CAPITAL**	-
	21	Fully paid up, directly issued capital instruments	-
	22	Share premium	-
	23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-
	24	Additional Tier 1: Other capital elements, deductions, and adjustments	-
	25	**TIER 2 CAPITAL**	-
	26	Fully paid up, directly issued capital instruments	-
	27	Share Premium	-
	28	(-) TOTAL DEDUCTIONS FROM TIER 2	-
	29	Tier 2: Other capital elements, deductions, and adjustments	-

MIFIDPRU 8.4 – Own Funds		
Own Funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements		
		Balance sheet as in audited financial statements
		As of 31 December 2022
Assets – *Breakdown by asset classes according to the balance sheet in the audited financial statements*		
1	Tangible assets	226
2	Investments	4,277
3	Debtors – Due after more than one year	2,645
5	Debtors – Due within one year	29,664
5	Net asset for deferred compensation	212
6	Cash and cash equivalents	4,349
	Total Assets	**41,373**
Liabilities – *Breakdown by liability classes according to the balance sheet in the audited financial statements*		
1	Creditors: amounts falling due within one year	21,502
2	Creditors: amounts falling due after one year	125
	Total Liabilities	**21,627**
1	Called up share capital	740
2	Capital redemption reserve	2,766
3	Profit and loss account	16,240
	Total Shareholders' Equity	**19,746**

MIFIDPRU 8.5 – Own Funds Requirement	
Sum of the K-AUM, K-CMH, and K-ASA requirements	400
The Fixed Overheard Requirement	8,631

The Firm assesses the adequacy of its own funds in accordance with the overall financial adequacy rule in MIFIDPRU 7.4.7R on an ongoing basis. The Firm confirms that sufficient own funds and liquid assets are held to ensure the Group is financially viable throughout the economic cycle and meets its relevant regulatory minimums. The Firm holds sufficient liquid assets to address material potential harm that may result from its ongoing activities, and to conduct an orderly wind-down should such a scenario arise.

The Internal Capital Adequacy Assessment Process ("ICAAP") and its replacement, the Internal Capital Adequacy and Risk Assessment ("ICARA"), is the primary mechanism by which the Firm assesses its business and operating models, the environment in which it operates, and its internal systems and controls to ensure that the Firm complies with the financial adequacy rule. The Firm undertakes this process, at least annually, and the process is forward looking and an integral part of the management of the Group.

The ICARA identifies the major sources of risk to the regulated entity, how the Firm deals with those risks, and details of the stress tests and scenario analyses carried out and the resulting financial resources estimated to be required. The Firm also carries out regular assessments of the types and distribution of financial resources, capital resources, and internal capital, which are documented in the ICARA. If necessary, the Firm retain the ability to deploy extra capital to the relevant risk, but this has not been deemed necessary to date.

BIPRU 11.5.18 R Disclosures:

Remuneration

The Firm must comply with the FCA's Remuneration Code (the "Code"). The purpose of the Code is to ensure that firms have remuneration policies that are consistent with, and promote, effective risk management and do not expose themselves to excessive risk. The Firm deems that it is not proportionate for it to have a separate remuneration committee and therefore the functions of such a committee are performed by the Firm's principals.

The Code allows firms to apply the Principle of Proportionality to disapply certain rules. As such, the Firm's principals have disapplied the following rules, given the nature of partnership participation:

- SYSC 19C.3.44 – Ratio between fixed and variable components of total remuneration;
- SYSC 19C.3.47 - Retained shares and other instruments;
- SYSC 19C.3.49 - Deferral; and
- SYSC 19C.3.51, 19A.3.52 - Performance adjustment.

The Firm's principals have adopted the following remuneration policy statement. Remuneration is not solely based upon an employee's individual investments but on the investment decision making process and contribution to the overall long term profitability and culture of the Group – including a demonstrated commitment to teamwork, ethical behavior, and compliance with the Firm's policies and procedures. The performance of the individual is assessed over the entire year.

Quantitative information

The following business areas received the following aggregate amount of remuneration:

Investment Professionals:	$6.9m
Business Support:	$12.5m

Remuneration for Directors was **8.2%** of total remuneration**.**