# Cowen Execution Services Limited

## Pillar 3 Disclosures

## For period ending 31 December 2017

## Introduction

The Capital Requirements Directives (the “Directives”) of the European Union (“EU”) have established a regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain. In the United Kingdom, the Directives have been implemented by the Financial Conduct Authority (”FCA”) in its regulations through the General Prudential Sourcebook (“GENPRU”), the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) and the Prudential Sourcebook for Investment Firms (“IFPRU”).

CRD III and CRD IV are EU legislative packages covering prudential rules for banks, building societies and investment firms.

Effective 1 January 2014, CRD IV implemented the Basel III agreement in the EU. Cowen Execution Services Limited (“CESL” or the “Company”) does not fall into the category of CRD IV firms and remains subject to CRD III legislation.

The FCA’s framework consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the Company’s credit, market and operational risk;
- Pillar 2 requires the Company to assess whether its Pillar 1 capital is adequate to meet its risks; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet the Company’s Pillar 3 obligations. The information within the scope of Pillar 3 is published on an annual basis. The disclosures are based on the position as at the Accounting Reference Data (31 December 2017).

The Company is permitted to omit required disclosures if it believes that the information is immaterial. In addition, the Company may omit required disclosures where it believes that the information is regarded as proprietary or confidential. In the Company’s view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding the Company to confidentiality with our customers, suppliers and counterparties.

## Scope and application of the requirements

CESL is authorised and regulated by the FCA, and as such, is subject to minimum regulatory capital requirements. The Company is categorised as a BIPRU firm by the FCA for capital purposes.

The Company is a wholly owned subsidiary of Cowen Execution Holdco, LLC. On June 1st, 2017, the Company, along with its parent company Cowen Execution Holdco LLC (formerly Convergex Group LLC) (“Parent”) and affiliated entities were acquired by Cowen CV Acquisition LLC, an indirect (wholly owned) subsidiary of Cowen Inc. (“Cowen”).

The Company conducts activities in two of Cowen’s business lines. A description of these business lines and their UK regulatory status can be found below:

- Arranging (bringing about) deals in investments and dealing in investments as agent providing DMA, algo and high-touch execution services in international equites and ADRs (regulated);
- Commission management services through client commission arrangements and commission sharing arrangements (unregulated; strictly a customer solicitation function for services provided from outside the UK by an affiliate).

The Company does not hold client money. The Company is not a member of an EEA sub-group and thus is not required to prepare consolidated reporting for prudential purposes.

**Risk management**

***Overview***

The Company's Senior Management is committed to maintaining and developing an adequate and comprehensive risk management process. The Company's Senior Management is responsible for identifying risks within the Company. All staff is encouraged to be alert to possible risks and to raise risks they have identified with their managers.

***Organisation and Governance***

The Board of the Company is the governing body, directly responsible for the overall management of CESL and provides leadership of the organisation within a framework of prudent and effective controls which enables risk to be assessed and managed, including a risk management programme.

The Board of Directors has established an audit and risk committee (the "Audit and Risk Committee" or "ARC") with delegated responsibility for audit and risk management functions within the Company, as set out herein.

The Company is an integral part of Cowen and its strategy, operations, policies and procedures are appropriately aligned with those of Cowen unless regulation or other factors dictate otherwise. The ARC reports directly to the Board of Directors, and its primary function is to assist the Board in fulfilling its audit and risk management responsibilities as defined by applicable law and regulations. The Chairman of the ARC is also required to ensure its activities are aligned with those of Cowen Inc.'s Audit & Risk Committee, taking direction and appropriately liaising with the Cowen Audit & Risk Committee where relevant.

Certain tasks within the risk management process have been delegated to various individuals employed by the Company or employed by Cowen working within, for instance, Finance, Risk and Legal/Compliance.

***CESL***

The overall risk management programme includes various risk assessments across a number of areas and activities within the firm and an on-going process considers both existing and new risks. The overall risk management programme is therefore adequately designed for flexibility, adaptability and responsiveness, such that risk and status can be evaluated dynamically and mitigated accordingly.

The controls to mitigate a particular risk are designed to take into account the Company's appetite or tolerance for particular risks. The controls in place may not eliminate a risk entirely but are intended to reduce it to a level acceptable to the Company.

The assessments are appropriate to the nature, scale and complexity of the Company's business and are based on an analysis of the likelihood of an event (whether accidental or deliberate) and its impact on the Company in terms of its business and the risk of financial loss, regulatory good standing or reputation in the market.

The key component of the risk assessment is structured around the following fundamental principles:

- identifying risks through a risk self-assessment process;
- assessing probability and impact of identified risk;
- assigning responsibility for managing risks through a 1st line of defense;
- implementing risk management techniques and controls to mitigate risk;
- overseeing the effectiveness of risk management processes and controls through 2nd and 3rd lines of defense;
- continually reviewing and updating the above; and
- documenting the processes and the output.

The Company executes its risk management programme,, including assessing its business and operational risks and setting forth appropriate actions to manage them. Among others risks, the Company's considers the following:

- market risk;
- credit risk;
- operational risk;
- regulatory risk;
- business risk.

The potential risks that the Company is currently exposed to have been identified and discussed by the Company's Senior Management.

Where the Company identifies material risks, it considers the financial impact of these risks as part of its business planning and capital management and determines whether the amount of regulatory capital is adequate.

Any exceptions arising from the above assessments and reviews are reported to the appropriate senior manager or Senior Management and, where necessary, the Company's Audit & Risk Committee, which will oversee the implementation of the necessary remedial actions and/or report to the Company Board of Directors, as required.

Material exceptions are also reported to Cowen Inc.'s Audit and Risk Committee of Holdings.

The Internal Audit function is performed internally by Cowen Inc's internal audit department. Management of this department communicates regularly with Cowen Inc.'s ARC.

***Cowen Inc.***

Cowen Inc.'s ARC meets quarterly to review, among other things, Cowen's risk exposures, policies and risk management activities for all business lines, including CESL.

Cowen's risk management framework is designed to:

- provide that risks are identified, monitored, reported, and valued properly;
- define the types and amount of risks to take;
- communicate to the appropriate level within Cowen the type and amount of risk taken;
- maintain a risk management organisation that is independent of the risk taking activities;
- promote a strong risk management culture that encourages a focus on risk-adjusted performance;
- ensure that subsidiary risk frameworks are aligned with that of Cowen.

**Regulatory capital**

The Company is a Private Limited Company and its capital arrangements are established in its Memorandum and Articles of Association.

The main features of the Company's capital position at 31 December 2017 for regulatory purposes are as follows:

| **Capital Item** | **GBP 000's** |
|---|---|
| Ordinary Equity Share Capital issued to the Company's parent | £ 1,650 |
| Capital Reduction Reserve | £ 125 |
| P&L - cumulative (audited) | £ 1,033 |
| Tier 1 capital less innovative tier 1 capital | **£ 2,808** |
| Total tier 2, innovative tier 1 and tier 3 capital | £ - |
| Deductions from tier 1 and tier 2 capital | £ 20 |
| Total capital resources, net of deductions | £ 2,788 |
| Capital resources requirement | £ 1,913 |
| Surplus over capital requirement | £ 875 |

**this represents the cumulative audited P&L through 31 December 2017.*

In accordance with the FCA Handbook, "a *BIPRU firm* must maintain at all times *capital resources* equal to or in excess of the amount specified in the table in *GENPRU 2.1.45 R*". The Company's market risk is limited to foreign exchange risk on its accounts receivable and expenses in foreign currency and credit risk is limited to cash deposits with Banks and intra-company accounts payable. The Company is subject to the Capital Resources Requirement and calculates its Capital Resources Requirement as the higher of its Market + Credit Risk Capital Requirement or Fixed Overheads Requirement. As at 31 December 2017, the Capital Resources Requirement was calculated using the Fixed Overheads Requirement.

**Remuneration Code Statement**

The Company is authorised and regulated by the Financial Conduct Authority as a BIPRU firm and is subject to the FCA's Rules on remuneration. These rules are codified in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code (the "RemCode") covers an individual's total remuneration, including both fixed and variable. The Company incentivises through a combination of the two. The Company's policy is designed to ensure that it complies with the RemCode and that its compensation arrangements:

1. are consistent with and promote sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with CESL's business strategy, objectives, values and long-term interests.

**Remuneration Policy and Practices**

This section describes information about the Company's remuneration policy which is required under the FCA's Remuneration Code as it applies to the Company. The Company qualifies as a Proportionality Level 3 Company under the Remuneration Code. It is required to disclose certain quantitative and qualitative remuneration items.

Due to its size of operations in the UK, the Company has not established a Remuneration Committee.

The Compliance Officer has a role from a regulatory perspective of ensuring that the Code Staff list is appropriate and that the Company's remuneration policy complies with the RemCode.

The Company's remuneration policy is reviewed annually by the Board of Directors of the Company.

**Information on the link between pay and performance**

The Company ensures that its remuneration policy is in line with its business strategy, objectives, values and long-term interests by ensuring that remuneration and bonus awards reward effective financial performance but also the successful achievement in relation the Company's conduct risk and culture.

Remuneration is reviewed regularly in order to ensure that remuneration is competitive, taking account of the size of the organisation and its activities. This is partly aimed at ensuring that the Company can attract and retain adequate talent. This is in line with the Company's long-term interests.

The annual cash bonus plan applies to most employees of Cowen and it is a key component of Cowen's compensation strategy. The purpose of this scheme is to reward employees for achieving Cowen's annual performance goals and for their individual performance, subject to the overriding requirement to maintain predetermined capital and liquidity surpluses in the Company. It is also intended to encourage the successful performance of Cowen and the Company by incentivising employees.

Bonus payments are discretionary and determined based on a number of factors, including revenues and EBITDA of Cowen, and individual performance. Individual performance is assessed according to (i) success in meeting certain financial goals or objectives; (ii) success in meeting certain non-financial objectives and (iii) complying with the policies and procedures of the Company. Deferral of a portion of bonus payments, for a period of 27 months, is used by the Company as a tool to support risk management objectives and practices.

In addition, the Company has implemented a Sales Payout Scheme that is consistent with one of Cowen's key strategic goals: to increase the breadth and number of the Company's revenue generating client relationships. At the date of this document, the scheme is only open to Sales Traders, whose role is to develop and maintain high-touch relationships with buy-side clients.

Each participating employee receives a "Draw", which is paid monthly in anticipation of payout entitlement.

The payout formulae are agreed individually with each participant and vary depending on the type of client, the size of revenue and the profitability of the qualifying business.

During 2017 there were no payouts under the Sales Payout Scheme.

**Aggregate Quantitative information on remuneration, broken down by Senior Management Code Staff and other firm Code Staff whose actions can have a material impact on the risk profile of the Company**

| **Category** | **Senior Management Code Staff and other firm Code Staff** |
|---|---|
| Total Remuneration | £ 1,153,559 inclusive of bonuses awarded for 2017 |
| Number of staff | 4 |

**These disclosures are made on a cash-basis.*

**Other disclosures**

The approach of the business to assessing the adequacy of its internal capital to support current and future activities is contained in the Company's ICAAP document. This process includes an assessment of the specific risks to the Company's business and the internal controls in place to mitigate those risks.

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