



FATHOM  
WEALTH MANAGEMENT  
ADVISORS

www.fathomwma.com

# **Fathom Wealth Management Advisors Ltd**

## **Risk Management Disclosures Year Ended 31 December 2020**



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## 1. Introduction

### 1.1. Corporate Information

Fathom Wealth Management Advisors Ltd (“the Company”) is authorised and regulated by the Cyprus Securities and Exchange Commission (“CySEC”) as a Cyprus Investment Firm to offer Investment and Ancillary Services under license number 306/16.

The Company is authorized to provide the following investment services:

- Reception and transmission of orders in relation to one or more financial instruments
- Portfolio Management
- Investment Advice

## 2. Risk Management Framework

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Company’s strategy and risk appetite, and that there is an appropriate balance between risk and reward.

The Company’s risk management framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the markets in which the Company operates, including regulatory standards and industry best practices.

The Company’s risk management framework is applied on an enterprise wide basis and consists of three key elements:

- Risk Governance;
- Risk Appetite; and
- Risk Management Techniques.

### 2.1. Principles of the risk function

The risk function is based on the following principles, which are aligned with the Company’s strategy and business model, and incorporate the recommendations of supervisory bodies, CySEC and best practices in the market:

- (a) business strategy is defined by risk appetite. The Board of the Company determines the quantity and type of risk it considers reasonable to assume in the execution of its business strategy and sets targets that are objective, comparable and consistent with its risk appetite for each key activity;
- (b) the forward-looking approach for all risk types must be part of the risk identification, assessment and management processes;
- (c) the independence of the risk function encompasses all risks and provides an appropriate separation between the risk generating units and units responsible for controlling these risks;



- (d) the risk function has sufficient authority and direct access to the Company's Board and Senior Management for establishing and overseeing risk strategy and policies;
- (e) a culture of risks integrated throughout the Company. It embraces a series of attitudes, values, skills and ways of acting toward risks that are integrated into all processes, including taking decisions on change management and strategic and business planning;
- (f) the risk management framework is subject to an independent review by the Internal Audit function;
- (g) remuneration frameworks are aligned with the Company's risk appetite;
- (h) promote the involvement of all employees in the risk culture, through adequate training at all levels.

## 2.2.Risk Culture

The Company's risk culture is specified in the principles of responsibility, prudence and compliance, as all units and employees (regardless of the function they carry out) are responsible for ensuring that not only does the Company comply, but also it is prudent and responsible in what it does. This risk culture is also based on the principles of Company's risk management framework and is transmitted to all business and management units and is supported, among other things, by the following drivers:

- (a) involvement of Senior Management in risk control and management, which is shaped in the Board's approval of the risk appetite, corporate frameworks that regulate the risk activity and the internal governance framework, and regular revision of the Company's risk profile, the main potential threats and the relevant events produced in the Company and in the financial sector;
- (b) independence of the control functions (risks, compliance and internal audit), with sufficient authority and direct access to the Board. These control functions are not conditioned by the business lines, and actively participate in taking important risk decisions;
- (c) appropriate documentation of the Company's risk activity, through detailed frameworks, policies and procedures for risk management and control.
- (d) having in place specific policies for compliance, framework for marketing products and services and framework for anti-money laundering and terrorist financing;
- (e) consistency and alignment between risk appetite, risk management and the Company's business strategy;
- (f) main risks are not only analysed when they are originated or when irregular situations arise in the ordinary recovery process, but also on a continuous basis;
- (g) remuneration is aligned with the Company's long-term value and risk management framework.

## 2.3.Risk Management Policies

The Company is dedicated and committed on taking all the required actions so as to establish adequate and effective risk management policies and procedures that facilitate the monitoring and mitigation of the risks to which it is exposed.



The Company established a Risk Management Manual which forms part of the Company's internal control and corporate governance arrangements. The manual incorporates the following policies:

- (a) Risk Management Framework;
- (b) Risk Governance;
- (c) Key Risks and Mitigation Controls;
- (d) Risk Appetite and Limits;
- (e) Exposure to Shareholders and Directors Policy;
- (f) Risk Monitoring and Reporting.

## **2.4. Risk Appetite Statement**

Risk Appetite is the amount and type of risk that the Company is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks.

An effective risk appetite statement is empowering in that it enables the decisive accumulation of risk in line with the strategic objectives of the Company while giving the board and management confidence to avoid risks that are not in line with the strategic objectives.

The Company implemented and maintains a Risk Appetite Statement which takes into consideration the strategic long term plan, capital planning and the Company's risk management framework.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

## **3. Risk Governance**

The risk governance of the Company is an integral part of the risk management framework and is organized in a way that ensures the establishment of clear responsibility boundaries, proper segregation of duties and the avoidance of conflicts of interests at all levels, including the Board, the Senior Management, the risk management function and the business units.

### **3.1. Three lines of defence model**

The Company uses the three lines of defence governance model which promotes transparency, accountability and consistency through the clear identification and segregation of roles.

The first line of defence consists of the management of business lines. It is the responsibility of first line management to identify and manage risks. This includes, at an operational level, the day-to-day effective management of risk in accordance with agreed risk policies, appetite and controls. Effective first line management includes:



- the proactive self-identification of issues and risks;
- the design, implementation and ownership of appropriate controls;
- a strong control culture of effective and transparent risk partnership.

The second line of defence consists of the risk management and the compliance functions. This line vouches for effective control of risks and ensures they are managed in accordance with the defined risk appetite.

The third line of defence provides independent and objective assurance to the Board and Senior Management on the effectiveness of the first and second lines of defence. This responsibility lies with the internal audit function.

## **3.2.Responsibilities**

### **3.2.1. Board of Directors**

The Board is responsible for the following:

- (a) setting the strategy of the Company;
- (b) setting the Company's risk appetite and ensures that it is reflected in business strategy and cascaded throughout the organization;
- (c) establishing and overseeing an effective governance and organization structure in accordance with legal and regulatory responsibilities that would allow it to put in place effective risk governance;
- (d) assessing and periodically reviewing the effectiveness of the policies, measures, practices and procedures put in place to comply with the obligations under the applicable laws and to take the appropriate measures to address any deficiencies in this respect;
- (e) reviewing periodically the risk management and internal controls framework relative to the Company's risk profile;
- (f) approving risk policies and limits;
- (g) reviewing and approving the Company's internal capital and liquidity adequacy assessment process report;
- (h) reviewing and approving the Risk Manager's annual report;
- (i) regularly reviewing and monitoring the actual risk profile and risk limits against the agreed levels, including qualitative measures of risk assessment;
- (j) discussing and monitoring to ensure appropriate action is taken regarding "breaches" in risk limits;
- (k) questioning Senior Management regarding activities outside the Board-approved risk appetite statement, if any;
- (l) appointing the Risk Manager who will head the risk management function;
- (m) ensuring that adequate resources and expertise are dedicated to the risk management function as well as the internal audit function in order to provide independent assurances to the Board and Senior Management that they are operating within the approved risk management framework.



### 3.2.2. Senior Management

The Company's Senior Management are responsible for the following:

- (a) implementing the risk strategy, as this has been approved by the Board;
- (b) developing, in collaboration with the Risk Manager, policies, methodologies and procedures required to identify, measure, monitor and control every type of risk, in accordance with the nature and complexity of the Company's operations;
- (c) providing leadership in communicating risk appetite to all relevant employees so as to help embed appropriate risk taking into the Company's risk culture;
- (d) setting the proper tone and example by empowering and supporting the Risk Manager in his/her responsibilities;
- (e) incorporating risk appetite into the Company's remuneration and decision-making processes.

### 3.2.3. Risk Manager

The Company's Risk Manager is responsible for the following:

- (a) identifying and evaluating the fundamental risks faced by the Company;
- (b) implementing policies on risk management and internal controls of the Company;
- (c) adopting and implementing effective arrangements and procedures to manage all types of risks that arise due to the Company's operations in respect of the level of risk tolerance;
- (d) monitoring the adequacy and effectiveness of the Company's risk management policies and procedures;
- (e) monitoring the level of compliance by the Company and the persons employed to the measures and arrangements set for the managing of the risk exposures of the Company;
- (f) educating and training the personnel of the Company on risk related matters;
- (g) requesting sufficient information from all the relevant departments of the Company in order to perform his/her duties;
- (h) monitoring the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply with such policies, procedures, arrangements, processes and mechanisms or follow such policies, procedures, arrangement, processes and mechanisms;
- (i) preparing written reports to the Senior Management and the Board of the Company making recommendations and indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies, at least annually;
- (j) examining the capital adequacy and the exposures of the Company;
- (k) examining the financial results of the Company;
- (l) developing an appropriate risk appetite for the Company, in collaboration with the Senior Management, that meets the needs of the Company;
- (m) obtaining the Board's approval of the developed risk appetite and regularly report to the Board on the Company's risk profile relative to risk appetite;
- (n) actively monitoring the Company's risk profile relative to its risk appetite, strategy, business and capital plans, risk capacity, as well as remuneration policy;





- (o) establishing a process for reporting on risk and on alignment (or otherwise) of risk appetite and risk profile with the Company's risk culture;
- (p) ensuring the integrity of risk measurement techniques that are used to monitor the Company's risk profile relative to its risk appetite;
- (q) establishing and approving, in collaboration with the Senior Management, appropriate risk limits that are prudent and consistent with the Company's risk appetite statement;
- (r) acting in a timely manner to ensure effective management, and where necessary mitigation, of material risk exposures, in particular those that are close to or exceed the approved risk appetite and/or risk limits;
- (s) escalating promptly to the Board and Senior Management any material risk limit "breach" that places the Company at risk of exceeding its risk appetite, and in particular, of putting in danger the financial condition of the Company.

#### **3.2.4. Business Line Leaders**

Risk management is an on-going activity and an inseparable and integrated part of the Company's business operations and procedures. Therefore, while the Board is accountable for ensuring that the risks faced by the Company are adequately and effectively managed, the owners of processes and line managers, with possible risk exposures, and those responsible for day-to-day risk management activities, are responsible for applying the Company's risk management policies and framework.

In this respect, the business line leaders are responsible for the following:

- (a) being accountable for effective management of the risk within their business unit;
- (b) knowing and applying the requirements of the risk strategy and policies in their area of business;
- (c) ensuring alignment between the approved risk appetite and planning, remuneration, and decision-making processes of the business unit;
- (d) embedding the risk appetite statement and risk limits into their activities so as to embed prudent risk taking into the Company's risk culture and day to day management of risk;
- (e) establishing and actively monitoring adherence to approved risk limits;
- (f) cooperating with the Risk Manager;
- (g) implementing controls and processes to be able to effectively identify, monitor and report against allocated risk limits;
- (h) acting in a timely manner to ensure effective management, and where necessary, mitigation of material risk exposures, in particular those that exceed or have the potential to exceed the approved risk appetite and/or risk limits;
- (i) escalating promptly breaches in risk limits and material risk exposures to the Risk Manager and Senior Management in a timely manner.

#### **3.2.5. Compliance Officer**

The Compliance Officer is responsible for assessing compliance risk in relation to matters such as governance and best practices. The Compliance Officer has direct access to the Board and Senior Management.





The Compliance Officer is also responsible for:

- (a) assessing any issues relevant to reputation risk;
- (b) developing a conflicts of interest policy and timely resolving any situations which may give rise to conflicts of interest;
- (c) setting restrictions for personal trading for the Company's employees;
- (d) preparing the Company's remuneration policy;
- (e) preparing and updating, when required, the Company's internal procedures manual, anti-money laundering manual and any other policies required by the regulatory requirements.

In view of the close proximity to matters related to risk management, the Risk Manager and the Compliance Officer shall maintain close cooperation and coordinate their activities.

### 3.2.6. Internal Auditor

Internal audit is an independent, objective assurance function with reporting lines to the Board and the Senior Management. Internal audit provides an independent evaluation of the controls, risk management and governance processes. The internal Auditor shall, without jeopardizing its independence, co-operate with the Company's Risk Manager and Compliance Officer in order to get an increased understanding of current and evolving key risks.

The Internal Auditor shall also independently analyse the work of the Risk Management and Compliance functions.

In addition to the above, the Internal Auditor is responsible for the following:

- (a) routinely assessing the Company's risk management procedures, controls, framework, practices and risk appetite statement;
- (b) identifying whether "breaches" in risk limits have been appropriately identified, escalated and reported in an efficient and timely manner;
- (c) assessing the design and effectiveness of risk measurement techniques used to monitor the Company's risk profile in relation to its risk appetite;
- (d) preparing written reports to the Senior Management and the Board of the Company making recommendations and indicating, in particular, whether the appropriate remedial measures have been taken in the event of any deficiencies, at least annually.

### 3.3. Absence of a Risk Committee

It is noted that the requirement for a Cyprus Investment Firm (hereinafter the "CIF") to establish a risk committee applies to "*CIFs that are significant in terms of their size, internal organisation and the nature, scope and complexity of their activities must establish a risk committee*". The Company has determined that it is not "significant" in any of the aforesaid criteria and, therefore, shall not establish a remuneration committee.



### 3.4. Reporting and Control

In order for the Company to have in place procedures that will allow it to monitor its exposure in risky areas, it undertakes certain reporting requirements towards the top management where the decision making is being carried out.

All the supervisory functions (i.e. Compliance, AML Compliance, Risk Management and Internal Audit functions) of the Company have an open line of communication with the Board in order to communicate any findings and/or deficiencies they identify in a timely manner and ensure that those will be resolved through the guidance of the management body.

The following table depicts the various reports and information flow submitted to the Board in relation to the year ended 31 December 2020:

	Report Name	Owner	Recipient
1	Risk Manager Report	Risk Manager	CySEC, Board of Directors
2	Compliance Officer Report	Compliance Officer	CySEC, Board of Directors
3	Money Laundering Compliance Officer Report	MLCO	CySEC, Board of Directors
4	Internal Auditor Report	Internal Auditor	CySEC, Board of Directors
5	Audited Financial Statements	External Auditor	CySEC, Board of Directors
6	Quarterly Capital Adequacy Reporting	Risk Manager	CySEC, Senior Management

### 4. Board of Directors

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors is currently comprised with three Executive and two independent Non-Executive Directors.

### 5. Own Funds

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company maintained own funds above the minimum required levels.

### 6. Pillar I Capital Requirements

#### 6.1. Credit Risk

In the ordinary course of business, the Company is exposed to credit risk. Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

As at 31 December 2020, the Company did not have any collaterals or guarantees and therefore did not make use of Credit Risk Mitigation techniques.



## 6.2. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that affect the Company's income or the value of its holdings of financial instruments.

As the Company is not holding any financial instruments, it is not exposed to market risk.

### 6.2.1. Currency Risk

Currency risk is the risk that the value of an asset will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency.

As the Company had balances held in US Dollars, the Company was exposed to foreign exchange risk.

## 6.3. Fixed Overhead Risk

Due to the limited authorisation of the Company, the Company falls under Article 95 of CRR and therefore the calculation of the capital requirements for operational risk is based on the fixed overheads of the preceding financial year. Under this method, the Company calculates its total Risk Weighted Assets as the higher of the following:

- a. Sum of risk weighted assets for credit and market risk;
- b. Operational Risk Weighted Assets based on preceding year fixed overheads.

The approach for calculating fixed overheads is a so-called subtractive approach, whereby variable cost items are deducted from the total expenses as calculated according to the International Financial Reporting Standards.

Out of the total expenses the Company has reported for the year ended 31 December 2019 there have been adjustments for non-recurring expenses from non-ordinary activities of the Company.

## 7. Other Risks

### 7.1. Compliance Risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from noncompliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.



## **7.2.Litigation Risk**

Litigation risk is the risk of financial loss, interruption of the Company's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Company to execute its operations.

## **7.3.Reputational Risk**

The Company is exposed to reputational risk that arises due to a number of factors including but not limited to negative publicity, pending or concluded litigation, poor performance or any legal or regulatory violations.

To mitigate this risk, the Company ensures that all regulatory requirements are adhered to and emphasises the importance of proper risk management across the organization. The Internal Audit and Compliance departments ensure that the policies and procedures are enforced at all times.

## **7.4.Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and arises when the maturity of assets and liabilities does not match. The Company has no long-term debt and ensures that sufficient cash is available on demand to meet any operational expenses that arise.

## **8. Remuneration**

The Company established a remuneration policy. The Company remunerated its employees with fixed remuneration only.