

**EFP Capital LLP**

---

**Capital Requirement Directive  
Pillar 3 Disclosure**

**June 2011**

# EFP Capital LLP

## Background

Under the 2006 Capital Requirement Directive (“CRD”), a revised regulatory framework was created across the European Union. This was implemented in the UK by the Financial Services Authority (“FSA”) through the creation of the General Prudential Sourcebook (“GENPRU”), and the Prudential Sourcebooks for Banks, Building Societies and Investment Firms (“BIPRU”).

The framework consists of three pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risks;
- Pillar 2 requires us and the FSA to express a view on whether additional capital needs to be held for risks not covered by Pillar 1
- Pillar 3 requires us to publish details regarding our risk management processes, underlying risks, and capital position.

The rules in BIPRU 11 set out the provisions for Pillar 3 disclosures. This must be done in accordance with a formal disclosure document. This document meets that obligation.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial or the information is proprietary and confidential. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of the reader relying on that information. Proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

## Scope and Frequency of Disclosure

EFP Capital LLP (“the Firm”) is an investment manager, authorised and regulated by the FSA. The Firm is categorised as a Limited Licence €50,000 firm. It acts solely as an investment manager, and does not hold client money.

From 30 April 2010, disclosures are issued on an annual basis and published as soon as practicable after the publication of the Annual Financial Statements, unless circumstances warrant update on a more frequent basis.

The report will be published on the Firm’s website.

## **Risk Management Objectives and Policies**

The Directors of the Firm determine its business strategy and risk appetite. In conjunction with the Compliance Officer, they have designed and implemented a risk management framework that recognises the risks that the business faces. The directors determine how these risks may be mitigated and assess on an ongoing basis the controls and procedures necessary to manage those risks. The Directors and senior executives from various departments meet on a regular basis and discuss projections for profitability, liquidity, regulatory capital, and business planning and risk management.

## **Risk Types**

The Firm is solely engaged in the business of providing management services to its clients. The Firm has no insurance and securitisation risk, and has low exposure to market, credit and liquidity risk as noted below. Our main exposures are to reputational risk, business risk and operational risk.

### ***Reputational Risk***

Reputational risk relates to damage to an organization through loss of its reputation or standing. This could include a variety of factors such as compliance failures, failure to properly oversee its employees and failure to provide appropriate risk oversight over the funds.

These risks are mitigated by a flat organizational structure where the management are the “doers” and are intimately involved in all the Firm’s activities, and by a combination of in-house and outsourced compliance expertise. Marketing materials are subject to a rigorous internal review process with access to external expertise as needed, prior to distribution.

### ***Business Risk***

The Firm operates in a very competitive industry and, like any business, is exposed to risk resulting from general business and economic conditions which could lead to reduction in assets under management and decrease in management fees.

Whilst the risk is somewhat mitigated by the Firm’s long-term record, management considers business risks factors in planning and decision-making and has modelled various economic scenarios such as poor performance, economic downturn and employee turnover.

### ***Operational Risk***

Operational risk includes those risk or events that could impact the Firm’s people, processing and technology in such a way as to impact the achievement of our goals and objectives. As a fund manager, the bulk of our risk management efforts are focused on operational risks. Significant human and systematic resources are in place to mitigate exposure this area.

The Firm is structured as an advisory boutique specialising in the structuring of bespoke alternative products for institutional and private clients and supports both new and established hedge fund managers in all stages of capital raising. As a result, the risk management activities are focused on understanding, monitoring and mitigating business and operational risks to the extent feasible in order to maintain a low risk profile in these areas.

### ***Liquidity Risk***

The firm consistently maintains sufficient liquid funds to meet its obligations. Excess cash is held on deposit or in interest bearing demand accounts at institutions with an investment grade rating.

### ***Credit Risk***

The Firm is exposed to credit risk on receivables from third party, all relating to management and performance fees, and exposure to banks where the firm maintains deposits. This is monitored monthly and reported to the management.

### ***Market Risk***

The risk is the exposure to foreign exchange fluctuations due to management and performance fees being denominated in currencies other than sterling. This is monitored regularly and managed through the use of spot and forward foreign exchange contracts.

## Capital Resources

The capital resources of the business comprise Tier 1 capital with no deductions. As a limited licence firm the capital resources requirement is calculated as the total of Pillar 1 and Pillar 2 capital.

Pillar 1 capital being the greatest of:

- A base requirement of €50,000
- A sum of credit and market risk requirements; and
- The fixed overhead requirement (“FOR”)

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

It is Firm’s experience that its capital requirement normally consists of the FOR, although market and credit risks are reviewed monthly. The Firm applies a standardised approach to credit risk, applying 8% to the Firm risk weighted exposure amount, consisting mainly of management and performance fees due but not paid, and bank balances.

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

As at 30 April 2011 the Firm’s regulatory capital position was:

<b>Capital Items</b>	<b>£000</b>
Share capital	500
Share premium	0
Other reserves	0
Audited reserves 30 April 2011	0
<b>Total Tier 1 Capital</b>	<b>500</b>
Pillar 1 requirement	365
Pillar 2 requirement	0

## Compliance with Pillar 2

Under Pillar 2 the FSA’s capital requirements, the Firm has undertaken an assessment of the adequacy of capital based on all risks to which the Firm is exposed. This was assessed in the Firm’s Internal Capital Adequacy Assessment Process (“ICAAP”).

As part of the ICAAP, the Firm considered risks to capital combined with stress testing and scenario analysis of operational and business risks as well as assessment of costs to wind down the business. The analysis concluded that the Firm has adequate capital to withstand unexpected losses arising from these risks.