

# Noonday Asset Management LLP

## Pillar 3 Disclosure and Policy

### Introduction

#### Regulatory Context

The Pillar 3 disclosure of Noonday Asset Management LLP (the "Partnership") is set out below as required by the FSA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" ("BIPRU") 11.3.3 R. This rule follows the introduction of the Capital Requirements Directive ("CRD"), which represents the European Union's application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

#### Frequency

The Partnership will be making Pillar 3 disclosures annually or more often, as appropriate. This disclosure is as at the most recent accounting reference date.

#### Media and Location

The disclosure is published on the Partnership's website.

#### Verification

The information contained in this document has not been audited by the Partnership's external auditors and does not constitute any form of financial statement.

#### Materiality

The Partnership 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 Partnership deems a certain disclosure to be immaterial, it may be omitted from this statement.

#### Confidentiality

The Partnership 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 Partnership's investments therein less valuable. Further, the Partnership must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Partnership to confidentiality. In the event that any such information is omitted, the Partnership generally discloses the omission and explains why it has not been disclosed.

### Summary

The CRD requirements have three pillars:

- Pillar 1 deals with minimum capital requirements;
- Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the supervisory review and evaluation process through which the firm and regulator satisfy themselves on the adequacy of capital held by the firm in relation to the risks it faces; and
- Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Partnership is an investment management firm. It acts solely as agent, under a sub-advisory investment management agreement, and therefore it does not hold any client monies and assets. The Partnership's greatest risks have been identified as business and

operational risks. The Partnership is required to disclose its risk management objectives and policies for each separate category of risk, which include:

- the strategies and processes to manage those risks;
- the structure and organisation of the relevant risk management function or other appropriate arrangement;
- the scope and nature of risk reporting and measurement systems;
- the policies for hedging and mitigating risk; and
- the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Partnership has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are undertaken by the Partnership's clients directly or are outsourced by its clients to third party providers such as administrators, thereby reducing the Partnership's exposure to operational risk. The Partnership has an operational risk framework (described below) in place to mitigate operational risk. The Partnership's main exposure to credit risk is the risk that sub-advisory investment management fees cannot be collected, and therefore credit risk is low. The Partnership holds all cash balances with a major UK banking institution.

The Partnership has assessed market risk exposure, which is limited to the Partnership's exposure to cash amounts held by the Partnership in a foreign currency, and the expected impact is low.

## **Background to the Partnership**

### **Background**

The Partnership is incorporated in the UK and is authorised and regulated by the FSA as an investment management firm. The Partnership's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm.

The Partnership is a solo regulated entity.

The Partnership is a BIPRU Investment Firm without an investment firm consolidation waiver and deducts illiquid assets under GENPRU 2 Annex 5 R.

## **BIPRU 11.5.1**

### **Disclosure: Risk Management Objectives and Policies**

#### **Risk Management Objective**

The Partnership has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

#### **Governance Framework**

The risk management process is overseen by Nicolas Giauque, the Chief Compliance Officer, with the Managing Members taking overall responsibility for this process (the "Governing Body"). The Governing Body meets at least quarterly.

The Governing Body 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 Governing Body decides the Partnership's risk appetite or tolerance for risk and ensures that the Partnership has implemented an effective, ongoing process to identify risks, to measure their potential impact and to ensure that such risks are actively managed. The Governing Body is responsible for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Partnership.

#### **Risk Framework**

Risk within the Partnership is managed by use of the following:

- the Governing Body responsible for risk management;

- the Partnership's conservative approach to risk;
- the Risk Register, in which the Partnership has identified its risks and recorded them;
- periodic reviews of the Risk Register at meetings of the Governing Body;
- scenario analysis and stress tests on the most significant risks identified and undertaken by the Partnership. Such analysis and tests informs the Partnership how risks are likely to behave and what, if any, impact there is likely to be to the Partnership's balance sheet; and
- an internal control framework to govern its processes and procedures and to mitigate any risks. The internal control framework includes stress tests of the Partnership's liquidity and regulatory capital.

#### 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 1 regulatory capital calculation of credit risk, under the credit risk capital component the Partnership has adopted the standardised approach (BIPRU 3.4) and the simplified method of calculating risk weights (BIPRU 3.5).

#### Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£95,000
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
<b>Total</b>		<b>£95,000</b>

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc. long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc. short-term	BIPRU 3.4.39	£4,930,000	20%	£986,000
Exposure to Corporates/Debtors	BIPRU 3.4.52	£197,000	100%	£197,000
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	£0	100%	£0
<b>Total</b>		<b>£5,127,000</b>		<b>£1,183,000</b>
<b>Credit Risk Capital Component</b>	8% of risk weighted exposure			<b>£95,000</b>

#### BIPRU 4

The Partnership does not adopt the internal ratings based approach and therefore, BIPRU 4 is not applicable.

**BIPRU 6**

The Partnership, being a Limited Licence Firm, is not subject to the Pillar 1 Operational Risk Requirement and, therefore, BIPRU 6 is not applicable.

**BIPRU 7**

The Partnership has only non-trading book potential exposure (BIPRU 7.5).

**BIPRU 10**

The Partnership is not subject to the large exposures requirements at BIPRU 10 and, therefore, no disclosure is required.

**Overall Pillar 2 Rule**

The Partnership has adopted the structured 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 Governing Body and amended where necessary, on an annual basis or when a material change to the business occurs. The Governing Body reviews and endorses the risk management objective annually or when a material change to the business occurs as part of its ICAAP assessment process.

**BIPRU 11.5.8****Disclosure:** Credit Risk and Dilution Risk

The Partnership is primarily exposed to credit risk from the risk of non-collection of its sub-advisory fee, which is a relatively low risk. It holds all cash and performance fee balances with a major UK bank. 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 Partnership has non-trading book potential exposure only (BIPRU 7.5).

**Market Risk calculation**

	Rule	Position	Risk Weight	
<b>PRR</b>				
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	£1,912,500	8%	£153,000
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
<b>Total</b>		<b>£0</b>		<b>£0</b>

**BIPRU 11.5.2****Disclosure:** Scope of application of directive requirements

The Partnership is subject to the disclosures under the Banking Consolidation Directive. 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 Partnership is a BIPRU Investment Firm without an investment firm consolidation waiver and deducts illiquid assets under GENPRU 2 Annex 5 R. Tier 1 Capital comprises of eligible LLP capital.

Tier 1 Capital	£1,185,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£1,185,000
Tier 3 Capital	£
Deductions	£28,000
<b>Total Capital</b>	<b><u>£1,157,000</u></b>

**BIPRU 11.5.5**

This disclosure is not required as the Partnership 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 Partnership 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 Partnership does not have a trading book.

**BIPRU 11.5.9**

This disclosure is not required as the Partnership 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 Partnership 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 Partnership 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 Partnership does not use a VaR model for calculation of

market risk capital requirement.

**BIPRU 11.5.14**

**Disclosure:** Operational Risk

The Partnership's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar 1 Operational Risk Capital calculation. The Partnership's Pillar 1 Capital Resources Requirement is the FOR which is the higher of the sum of Market Risk and Credit Risk Requirement.

Fixed Overhead Requirement	GENPRU 2.1.53	<u>£492,000</u>
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**BIPRU 11.5.15**

**Disclosure:** Non-Trading Book Exposures in Equities

This disclosure is not required as the Partnership 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 Partnership has a substantial cash balance 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 Partnership does not securitise its assets.

**BIPRU 11.5.18**

**Disclosure:** Remuneration

The Partnership is a Remuneration Code Proportionality Tier 4 Firm and has applied the rules appropriate to its proportionality tier. The Governing Body is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

**Remuneration Code Staff Remuneration (BIPRU 11.5.18(6))**

<b>Business Area</b>	<b>Total</b>
<b>Remuneration</b>	
Investment sub-advisory business	£19,542,820

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

<b>Type of Remuneration Code Staff</b>	<b>Total Remuneration</b>
Senior Management (SIF)	£19,542,820
Other Remuneration Code Staff	£0
<b>Total</b>	<u><b>£19,542,820</b></u>