Algebris UK Limited Pillar 3 Disclosure

Introduction

In 2006, the Basel II capital accord revised the existing regulatory capital framework to make it more sensitive to the risk management practices of modern banks and investment firms. The European Union implemented these provisions via the Capital Requirements Directive ('CRD'), which consists of a three pillar framework:

- Pillar 1 – sets out the minimum capital requirements firms will be required to hold in order to meet credit, market and operational risk.
- Pillar 2 – firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1 and must take action accordingly.
- Pillar 3 – aims to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management.

The United Kingdom financial regulatory body, the Financial Conduct Authority ('FCA') has incorporated the new framework into its existing rules and guidance through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

- BIPRU 11 relates specifically the Pillar 3 disclosure requirements affecting firms subject to the CRD. This document discloses those requirements, as laid out in BIPRU 11.5, detailed below:
- BIPRU 11.5.1R – the risk management objectives and policies for each separate risk referred to under BIPRU 11.5.1R to 11.5.17.
- BIPRU 11.5.2R – the scope of application of directive requirements.
- BIPRU 11.5.3R – information regarding capital resources.
- BIPRU 11.5.4R – information regarding compliance with the BIPRU rules and the overall Pillar 2 rule.
- BIPRU 11.5.12R – regarding disclosures relating to market risk.

Information which is regarded as proprietary or confidential, or immaterial, is not included. Information should be considered as material if its omission or misstatement could change or influence the assessment or decision of a user relying on it to make economic decisions. Proprietary or confidential information could include information which, if shared with competitors, would render a firm's investments less valuable or if the information comprises obligations to customers or other counterparty relationships binding a firm to confidentiality.

Scope of application of directive requirements

The Pillar 3 disclosures set out in this document pertain to Algebris (UK) Limited ('Algebris' or 'the firm'), an FCA registered limited licence BIPRU investment firm.

The firm is a subsidiary of Algebris Investments Luxembourg SARL, which is not regulated.

Historically, Algebris Investments (UK) LLP was the investment manager of the various Algebris funds and managed accounts. As part of an internal re-organisation between December 2016 and June 2017 Algebris (UK) Limited became the investment manager of the various funds and managed accounts.

Algebris (UK) Limited is a Collective Portfolio Management Investment ("CPMI") Firm, as a result in addition to having to meet regulatory capital requirements based upon the retention of sufficient regulatory capital to meet an expenditure based requirement, Algebris is also subject to a capital requirement based upon its Assets Under Management. Although, as an AIFM, Algebris is subject to the capital requirements of the AIFMD, it continues to be categorised as a BIPRU Firm and is still subject to the Pillar 3 Disclosure Requirements. For the purposes of the CRD, the firm is not consolidated as per BIPRU 8.5.

There are no current or foreseen material practical or legal impediments to prompt the transfer of capital resources or repayment of liabilities between the parent undertaking and any subsidiary undertakings. The firm's capital resources are in excess of the required minimum and it is not affected by a solo consolidation waiver.

Risk management objectives and policies

The firm is governed by its Directors who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the firm's governance arrangements, along with designing and implementing a risk management framework that takes into account the risks that the firm is likely to meet. The firm also addresses how these risks should be mitigated and managed.

BIPRU 11.5.4-17 lists several risk categories for which the risk strategy must be disclosed. From those listed, the firm has identified credit, market and operational risks as currently applicable to its business. All risks identified are reviewed regularly as part of the firm's internal capital adequacy assessment process (ICAAP). Any perceived changes to these risks are acted upon promptly.

Credit Risk

The firm is exposed to credit risk through its cash deposits, trade debtors, intercompany balances prepayments, amounts due from member's, and the Firm's monthly management fees.

The firm will hold all cash with banks with whom the firm has strong, well-established relationships and who typically have a minimum Moody's or S&P rating of investment grade. It does not have any external investments.

The firm uses the standardised approach to calculating credit risk exposures, i.e. 8% of the risk weighted credit exposure. Under this approach the firm calculated its total credit risk to be €1,086,881.

Market Risk

Market risk is primarily limited to foreign exchange risk arising from a currency mismatch between the firm's management fees and functional currency. The majority of the management and performance fees are received in the firm's base currency, Euro. As the currencies involved are highly liquid (Sterling, Dollar and Euro), and the potential fluctuations relatively small, the firm does not believe it is necessary to hedge this exposure.

The firm uses the standardised approach to calculating market risk exposures, i.e. 8% of the risk weighted market exposure. Under this approach the firm calculates its total market risk to be €189,044.

Operational Risk

The firm has in place a companywide risk management framework which outlines responsibilities and escalation procedures for the identification and management of risks, as outlined in the risk policy. As part of this risk management framework, the firm explicitly considers whether each identified key operational risk should be 'taken' (i.e. accepted with no changes to business processes and controls)', 'treated' (i.e. its impact or likelihood of occurrence reduced by improvements in the control environment) or 'transferred' (i.e. insured). The responsibility for ensuring that operational risk management is performed in line with this 'take, treat or transfer' approach rests with the Risk Committee and Directors of the firm.

The driver of the Pillar II capital is operational risk. The Operational Risk has been calculated using the Standardised Approach, as per, BIPRU 6.4. The firm has calculated that its Pillar II Operational Risk is €717,675.

Fixed Overhead Requirement

The Firm has determined the Fixed Overhead Requirement (FOR) to be €2,822,036. The Firm has determined that the actual costs associated with a wind down to be €1,328,810, which is less than those determined in the FOR calculation.

Capital Resources

The total value of tier 1 capital resources, reflecting the Firm's total capital resources as at 31 December 2016 was €10,289,358. There were no deductions relating to material holdings in financial institutions.

The Pillar I Requirement

The Firm's base capital requirement is €50,000. The Firm bases its Pillar I capital requirements as the fixed overhead requirement, as this amount is higher than both the sum of the credit risk and market risk, and the base capital requirement. The firm's total Pillar I liquid capital requirement is therefore €2,822,036.

The Pillar I Requirement

The firm has calculated that €717,675 of capital should be held against Pillar II Operational Risks.

Total Capital Requirement

The Firm bases its Total Capital Requirement calculation on the Pillar I Plus approach. The sum of the individual Pillar I and Pillar II Capital Requirements is €3,539,710. This is greater than the cost of a wind down, and thus reflects the Firm's Total Capital Requirements.

The Firm holds €6,749,648 of surplus Capital.