

# Clearance Capital Limited

## Pillar 3 Disclosure and Policy

31 March 2017

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### Introduction

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#### **Regulatory Context**

The Pillar 3 disclosure of Clearance Capital Limited (the **Firm**) is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically [BIPRU 11.3.3 R](#). This is a requirement which stems from the UK's CRD III implementing Regulations which represented the European Union's application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remain subject to the UK's implementation Regulations of CRD III. The regulatory aim of the disclosures is to improve market discipline.

#### **Frequency**

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date ("ARD").

#### **Media and Location**

The disclosure will be published on our website.

#### **Verification**

The information contained in this document has not been audited by the Firm's external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

#### **Materiality**

The Firm 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 Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

#### **Confidentiality**

The Firm 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 Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

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### Summary

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The CRD, to which the Firm remains subject as a consequence of the UK CRD III implementing Regulations, has three pillars; Pillar 1 deals with minimum capital requirements; Pillar 2 deals with 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 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The Firm is a Full Scope UK AIFM of EEA and non-EEA AIFs and also undertakes additional activities which result in the Firm being a BIPRU firm. It acts solely as agent, so the main protection to our customers is provided through client money and asset arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm 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; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

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

A number of key operations are outsourced by our clients, typically the AIFs to which we are an AIFM, to third party providers such as administrators reducing our exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected and, therefore, credit risk is considered low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to foreign currency exchange rate risk and hence to any assets held on the Firm's Balance Sheet denominated in a foreign currency. The Firm's Reporting Currency is GBP and all foreign currency assets are converted into GBP where possible on a regular basis.

### Background to the Firm

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The Firm is incorporated in the UK and is authorised and regulated by the FCA as an AIFM of EEA and non-EEA AIFs. In addition the Firm undertakes MiFID activities which give it the categorisation of a 'BIPRU Firm'.

The ICAAP covers the Firm.

The Firm is a solo regulated entity with a Non-EEA parent.

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### **BIPRU 11.5.1**

**Disclosure:** Risk Management Objectives and Policies

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The Management Committee has the daily management and oversight responsibility. It meets quarterly and is composed of:

- Wessel Hamman (Director);
- Simon Bryant (Director);
- Jacques van der Merwe (Director);
- Charl Cloete (Director); and
- Iain Catterall (representative of the Firm's parent).

The Management Committee 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 Management Committee decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. The Partners are accountable to the Management Committee for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

### **Risk Framework**

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

- The Firm has a conservative approach to risk;
- The risks of the Firm are reviewed at regular meetings of the Management Committee;
- The Firm has undertaken scenario analysis on the most significant risks identified. This informs the Firm of the impact, if any, there is likely to be on our balance sheet under adverse conditions;
- The Firm has in place policies to govern its processes and procedures and to mitigate any risks; and
- The Firm prepares annual ICAAP projections to test the available capital buffer, which are reviewed quarterly.

### **BIPRU 11.5.4**

**Disclosure:** Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 Rule

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### **BIPRU 3**

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified method of calculating risk weights (BIPRU 3.5).

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### Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component		
Credit risk capital component	BIPRU 3.2	£531,419		
Counterparty risk capital component	BIPRU 13 & 14	-		
Concentration risk capital component	BIPRU 10	-		
<b>Total</b>		<b>£531,419</b>		

  

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	-	0%	-
Banks etc long-term	BIPRU 3.4.36	-	50%	-
Banks etc short-term	BIPRU 3.4.39	£1,471,337	20%	£294,267
Past due item	BIPRU 3.4.96	-	100%	-
Investments	BIPRU 3.4.118R	£3,018,853	150%	£4,528,279
Fixed assets	BIPRU 3.4.127	£6,518	100%	£6,518
Accrued investment management fees and other debtors	BIPRU 3.4.128	£1,813,667	100%	£1,813,667
<b>Total</b>		<b>£6,310,375</b>		<b>£6,642,732</b>

  

<b>Credit Risk Capital Component</b>	8% of risk weighted exposure	<b>£531,419</b>
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### BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

### BIPRU 6

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

### BIPRU 7

The Firm has Non-Trading Book potential exposure under BIPRU 7.5 and 7.7.

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### Overall Pillar 2 Rule

The Firm 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 Partners and amended where necessary, on a quarterly basis or when a material change to the business occurs. The Partners present the ICAAP document to the Management Committee of the Firm which reviews and endorses the risk management objective each quarter, or when a material change to the business occurs, at the same time as reviewing and signing off the ICAAP document.

### BIPRU 11.5.8 - Credit Risk and Dilution Risk

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The Firm is primarily exposed to Credit Risk from the risk of non-collection of management and performance fees. It holds all cash with Banks assigned high credit ratings. 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 - Market Risk

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The Firm has Non-Trading Book potential exposure according to BIPRU 7.5 and 7.7.

#### Market Risk calculation

	Rule	Position	Risk Weight	PRR
Interest rate position risk requirement	BIPRU 7.2	-	8%	-
Equity position risk requirement	BIPRU 7.3	-	8%	-
Commodity position risk requirement	BIPRU 7.4	-	8%	-
Foreign currency position risk requirement	BIPRU 7.5	£299,175	8%	£23,934
Option position risk requirement	BIPRU 7.6	-	8%	-
Collective investment undertaking position risk requirement	BIPRU 7.7	-	32%	-
<b>Total</b>		<b>£299,175</b>		<b>£23,934</b>

### BIPRU 11.5.2 - Scope of application of directive requirements

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The Firm is subject to the disclosures under the UK CRD III Implementing Regulations. 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.

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### BIPRU 11.5.3 - Capital Resources

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The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting, Material Holdings under GENPRU 2 Annex 4. Tier 1 Capital comprises of share capital, premium, audited reserves and unaudited losses.

Tier 1 Capital	£3,762,448
Deductions	-
Tier 2 Capital	-
Deductions	-
<b>Capital Resources</b>	<b>£3,762,448</b>
Tier 3 Capital	-
Deductions	-
<b>Total Capital</b>	<b>£3,762,448</b>

### BIPRU 11.5.5

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This disclosure is not required as the Firm 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

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This disclosure is not required as the Firm 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

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This disclosure is not required as the Firm does not have a Trading Book.

### BIPRU 11.5.9

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This disclosure is not required as the Firm 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 - Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

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This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5).

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### **BIPRU 11.5.11 - Firms calculating Risk Weighted Exposure amounts using the IRB Approach**

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This disclosure is not required as the Firm 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 - Use of VaR model for calculation of Market Risk Capital Requirement**

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This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

### **BIPRU 11.5.14 - Operational Risk**

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

The Fixed Overhead Requirement per GENPRU 2.1.53 based on the expenditure reflected in the audited financial statements for the year ended 31 March 2016 amounts to £240,360.

### **BIPRU 11.5.15 - Non-Trading Book Exposures in Equities**

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This disclosure is not required as the Firm does not have any non-trading book exposures in equities.

### **BIPRU 11.5.16 - Exposures to Interest Rate Risk in the Non-Trading Book**

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Although the Firm has cash balances on its Balance Sheet, there is currently no significant exposure to interest rate fluctuations.

### **BIPRU 11.5.17 - Securitisation**

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This disclosure is not required as the Firm does not securitise its assets.

### **BIPRU 11.5.18 - Remuneration**

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The Firm is a Remuneration Code Proportionality Level 3 Firm and has applied the rules appropriate to its Proportionality Tier. The Management Committee is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

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### Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))

Business Area	Total Remuneration
Investment management	£774,985

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

Type of Remuneration Code Staff	Total Remuneration
Senior Management (SIF)	£774,985

### Important information about the preparation of this Disclosure

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- This document has been prepared for the sole purpose of disclosing how the Firm complies with certain capital requirements and manages risk, and for no other purpose. It is based on historical information.
- This document only concerns the Firm.
- The information contained herein has not been audited by the Firms' external auditors. It does not constitute any form of financial statement and must not be relied upon in making any judgment on the Firm.
- This disclosure will be updated annually unless there is a material change to the business strategy or scale of operations.