

Capital Requirements Directive - Pillar 3 Disclosure

Background

The European Union Capital Requirements Directive ('CRD') sets out the regulatory capital framework which is overseen in the United Kingdom by the Financial Conduct Authority ('FCA') and the Prudential Regulatory Authority through the General Prudential Sourcebook ('GENPRU') and, in respect of TwentyFour Asset Management LLP (the "Firm"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

This legislation came into force on 1 January 2014, with the implementation of the Capital Requirement Directive IV ('CRD IV'), which sets out global standards for capital and liquidity adequacy. Following its departure from the European Union, the UK replicated the European prudential regime for investment firms in UK legislation, as part of the withdrawal process, through a number of amending statutory instruments.

The FCA framework consists of three 'pillars':

- Pillar 1 sets out the minimum capital requirements that we are required to meet for credit, market and operational risk;
- Pillar 2 requires us, and the FCA, to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 requires us to publish certain details of our risks, capital and risk management process.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure document. The disclosure of this document meets our obligation with respect to Pillar 3.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Where we have considered a disclosure to be immaterial, we have stated this in the document.

In addition, we may also omit one or more required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, 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. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this.

Scope and Application of the Requirements

The Firm is authorised and regulated by the FCA and has permission to provide discretionary investment management and investment advisory services on behalf of professional clients and eligible counterparties. The Firm is categorised as a limited licence firm by the FCA for capital purposes.

The Firm has been wholly-owned by Vontobel Asset Management UK Holdings Ltd (“Vontobel”), a subsidiary of the Vontobel Group, since 30 June 2021.

Risk Management

The Executive Committee of the Firm (the “ExCo”), comprised of five of its partners, reports into the Firm’s Board of Directors (the “Board”), which is made up of three Vontobel representatives and two of the Firm’s partners. The ExCo determines the Firm’s business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. The ExCo also determines how those risks may be mitigated and assesses on an ongoing basis the arrangements made to manage those risks.

The ExCo meets on a regular basis and discusses current projections for profitability and regulatory capital management, business planning and risk management, reporting into the Board on a quarterly basis. The ExCo manages the Firm’s risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The ExCo has identified that operational, liquidity, credit, reputational, strategic/business and key person risks are the main areas of risk to which the Firm is exposed. Annually the ExCo formally reviews the risks, controls and other risk mitigation arrangements and assesses their effectiveness. Where the ExCo identifies material risks it will assess the financial impact of these as part of the business planning and capital management and conclude whether the amount of regulatory capital is adequate.

The Firm’s operational infrastructure is appropriate to its size. It carries limited market risk, other than foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable with respect to the portfolios under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is not required to calculate an operational risk capital charge for Pillar 1 purposes, although operational risk is considered under Pillar 2. The resulting capital requirement is included in the Firm’s Pillar 2 calculation.

This section describes the risks faced by the Firm and which the Firm has considered under the FCA rules or guidance. The Board’s analysis of the individual risks and details of any extra capital requirement to be held against these risks under Pillar 2, where appropriate, are set out in the Risk Assessment Matrix in Appendix A (*Risk and Capital Assessment*).

Capital Management

Pillar 1 requirement

The Firm is a limited liability partnership and its capital arrangements are established in its Partnership Deed. The main features of the Firm's capital resources for regulatory purposes are as follows:

Capital	31 December 2020 £'000
Members' Capital	2,840
Core Tier One Capital	2,840
Deductions from Tier One Capital	-
Total Capital Resources net of reductions	2,840

As mentioned above, the Firm is a limited licence firm and as such its minimum capital requirements under Pillar 1 are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement.

It is the Firm's opinion that under Pillar 1, its minimum capital requirement is equal to the Fixed Overhead Requirement ('FOR'), being £2,477,000, as the market and credit risk are considered relatively small in comparison.

The FOR is regularly reviewed by the ExCo to ensure that it is appropriate for the Firm, having regard to any material changes in the cost base of the Firm.

The Firm's capital falls into Tier 1 capital as defined by GENPRU. It does not currently have any capital falling into any other Tier categories and there are no plans to issue financial instruments falling within these Tiers in the foreseeable future. The Firm is capitalised at a level in excess of the minimum required regulatory level and the ExCo monitor management accounts and cash liquidity statements on a frequent basis to ensure that an adequate buffer of capital is maintained at all times.



Pillar 2 requirement

The Firm undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is a substantial report on the Firm's business and risk environment. The ICAAP considers risk appetite, risk types, risk mitigants, a three-year scenario analysis and stress testing of those scenarios.

The ICAAP process also considers the impact on the Firm in a theoretical 'winding down' scenario and whether additional capital is required, above and beyond the FOR, to mitigate the risk that the Firm does not have sufficient resources to wind up the business in an orderly fashion such that all liabilities could be met.

Having assessed this unlikely scenario, the ExCo have determined that the capital required does not exceed the Firm's FOR and no further regulatory capital is required beyond its Pillar 1 assessment.