

GSA CAPITAL PARTNERS LLP - PILLAR 3 RISK DISCLOSURE

Overview

The European Capital Requirements Directive (“the Directive”) establishes a revised regulatory capital framework across Europe governing the amount and nature of capital which credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the FSA in its Handbook of rules and guidance, including in particular in the *General Prudential Sourcebook* (‘GENPRU’) and the *Prudential Sourcebook for Banks, Building Societies and Investment Firms* (‘BIPRU’).

The Directive’s framework consists of three ‘Pillars’:

- **Pillar 1**
This sets out the minimum capital amount that meets the firm’s credit, market and operational risk.
- **Pillar 2**
Requires the firm to assess whether its capital is adequate to meet its risks that are not covered by Pillar 1 and is subject to review by the FSA.
- **Pillar 3**
Requires public disclosure of qualitative and quantitative information about the underlying risk management controls and capital position of a firm.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet GSA’s Pillar 3 obligations by setting out the company’s risk management objectives and policies.

We are permitted to omit required disclosures if we believe that the information is immaterial such that its omission or misstatement would not be likely to change or influence the assessment or decision of a reader relying on that information for the purpose of making economic decisions.

In addition, we may omit 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 with the public, 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.

We have made no omissions on the grounds that it is proprietary or confidential.

Frequency and location of disclosure

Future disclosures will be issued on an annual basis, at a minimum, and will be made available on GSA’s website.

Scope and application of the requirements

GSA Capital Partners LLP (“GSA”) is authorised and regulated for investment management activities in the UK, by the FSA, and as such is subject to minimum regulatory capital requirements. GSA is categorised as a *BIPRU €50,000 limited licence firm* by the FSA for capital purposes. It is an investment management firm and as such has no trading book exposures.

GSA and GSA Capital Services Limited form part of a UK Consolidation Group (“the Group”) and are required to prepare consolidated reporting to the FSA for prudential purposes.

There are no current or foreseen material, practical or legal impediment to the prompt transfer of capital resources, or repayment of liabilities, intra-Group.

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Risk management

GSA's Management Committee determines the business strategy and risk appetite of the company, together with the design and implementation of a defined and transparent risk management framework, having regard to relevant laws and regulatory rules.

Senior management meet on a regular basis to discuss all key business issues, including current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. As new risks arise or as new business activities are entered into, the risk management framework is updated accordingly.

The Individual Capital Adequacy Assessment Process ("ICAAP") is an integral part of GSA's risk management framework and is reviewed and updated no less frequently than annually. The ICAAP sets out the sources of risk to the firm and then rates the potential impact of each risk to the firm's business, offsetting this against the systems and controls which have been put in place to mitigate against those risks.

Reasonable steps are taken by GSA to reduce the probability of any risk crystallising. Furthermore additional capital resources, proportionate to the potential impact, are maintained for risks where the probability is not fully mitigated and which GSA does not wish to bear.

Senior management have identified the main risks to which the Group is exposed. They are as follows:

- **Operational Risk**

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The Group seeks to mitigate all operational risks to acceptable levels, in accordance with its risk appetite, by maintaining a strong control environment, ensuring that staff have appropriate skills and training and establishing an efficient and effective management structure. In addition, the Group has in place comprehensive insurance to cover against key operational risks.

- **Business Risk**

The most significant business risk faced by the Group is that of a substantial and sustained reduction in Funds under Management, caused by adverse market conditions or investor redemptions, resulting in a loss of management fee income.

Regular stress and scenario testing is conducted in order to assess and evaluate the ongoing potential impact of the various key business risks.

- **Market Risk**

The Group has limited exposure to market risk. It does not have a trading book and as such, market risk is limited to exposure to foreign exchange fluctuations, primarily as a result of the management fee income being denominated in US\$.

- **Credit Risk**

This is the risk that a third party will default on a financial obligation. The Group is exposed to credit risk from:

- Fund management and performance fees due from the funds which GSA manages; and
- The cash deposits which are held by authorised banks on behalf of the Group.

This risk is mitigated by procedures to collect fees promptly when due and close monitoring of banking counterparties.

Having assessed all possible risks to the Group through the ICAAP review, the largest risk in capital terms is that of performing an orderly wind down of the business. Accordingly, the Group's Pillar 2 figure is that of an orderly wind down.

GSA deems its risk exposure to be typical for a business of its size and nature.

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Regulatory capital

GSA is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed.

As above, GSA is a limited licence firm and as such its capital requirements are the greater of:

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

GSA considers itself to be small with a relatively simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from (i) management and performance fees receivable from the funds under its management, and (ii) bank deposits.

GSA follows the standardised approach to market risk and the simplified standard approach to credit risk. GSA is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

It is GSA's experience that market and credit risks sum to less than the Fixed Overheads Requirement, which therefore establishes the minimum capital requirement of £1,977,000.

Accordingly, GSA considers its market risk capital requirement and its credit risk capital requirement to be immaterial for purposes of this Pillar 3 disclosure.

In addition, the Firm has established that the amount of capital required as a result of its ICAAP review is £2,200,000, based on an estimated cost of an orderly wind-down, and maintains sufficient capital accordingly.

The main features of the GSA's capital resources for regulatory purposes are as follows:

	The LLP	Group
Capital item	£	£
Members Capital	2,323,000	1,763,000
Share capital	-	1,000
Retained profits	2,694,000	6,371,000
Total Tier 1 capital less innovative tier 1 capital	5,017,000	8,135,000
Total tier 2, innovative tier 1 and tier 3 capital	0	0
Deductions from tier 1 and tier 2 capital	0	0
Total capital resources, net of deductions	5,017,000	8,135,000
Fixed Overheads Requirement	1,977,000	1,977,000
Pillar II Capital Assessment	2,200,000	2,200,000

[May 2009]