

**G Squared Capital LLP**  
**(The “Firm” or “G2”)**

**February 2017**

**Pillar III Disclosure**

## **Introduction**

G Squared Capital LLP (“G2”) is required by the FCA to disclose information relating to the capital it holds and each material category of risk it faces to assist users of its accounts and to encourage market discipline.

The Capital Requirements Directive (CRD) created a revised regulatory capital framework across Europe covering how much capital financial services firms must retain. In the United Kingdom, rules and guidance are provided in the General Prudential Sourcebook (GENPRU) for Banks, Building Societies and Investments Firms (BIPRU).

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk;
- Pillar 2 requires companies to assess whether their Pillar 1 capital is adequate to meet their risks and is subject to annual review by the FCA;
- Pillar 3 requires companies to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position. These disclosures are seen as complimentary to Pillar 1 and Pillar 2.

Rule 11 of BIPRU sets out the provisions for Pillar 3 disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential. The Firm believes that the disclosure of this document meets its obligation with respect to Pillar 3.

## **Firm Overview**

G2 is incorporated in the UK and is authorised and regulated by the FCA as a MiFID Investment Manager and is categorised by the FCA for prudential regulatory purposes as a BIPRU firm.

The Governing Body of G2 has the daily management and oversight responsibility. It generally meets quarterly and is composed of:

- Gareth Shepherd;
- Gabriel Andraos; and
- Yana Kramer.

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 G2'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 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 G2.

## Capital Resources and Requirements

### Capital Resources

#### Pillar 1

G2 was authorised by the FCA on 15 August 2016 and holds regulatory capital resources of £190,000, comprised solely of core Tier 1 capital of Members' capital contributions.

The Firm has calculated its BIPRU capital resources in accordance with GENPRU 2.2:

Members' Capital	£190,000
Audited reserves	£
Hybrid Capital	£
Tier 2 Capital	£
<b>Total</b>	<b>£190,000</b>

The firm is required to maintain 'own funds' which equal or exceed the higher of:

- the Base Capital requirement of €50,000;
- the sum of its market and credit risk requirements; and
- the Fixed Overhead Requirement (i.e. 25% of the firm's fixed annual costs).

As at 31 December 2016, the Firm's Pillar 1 capital requirement was £95,265.

### Satisfaction of Capital Requirements

#### Pillar 2

The Firm has adopted the "Structured" approach to the calculation of its Pillar 2 Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 and 2 as the Internal Capital Adequacy Assessment Plan ("ICAAP") capital requirement. It has assessed Business Risks by modeling the effect on its capital planning forecasts and assessed Operational Risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

Since the Firm's ICAAP (or Pillar 2) process has not identified capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm over the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable.

### Risk Management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Firm's partners.

As risks are identified within the business, appropriate controls are put in place to mitigate these and compliance with them is monitored on a regular basis. The frequency of monitoring in respect of each risk area is determined by the significance of the risk. The Firm does not intend to take any risks with its own capital and ensures that risk taken within the portfolios that it manages is closely monitored and in line with the set parameters. The results of the compliance monitoring performed is reported to the partners by the Compliance Officer.

## Operational Risk

The Firm places strong reliance on the operational procedures and controls that it has in place to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks. These relate to disruption of the office facilities, system failures, trade failures and failure of third party service providers. Appropriate policies are in place to mitigate against risks, including a business continuity plan and the Firm also has an appropriate insurance policy in place.

## Credit Risk

The main credit risk to which the Firm is exposed is the failure of its debtors to meet their contractual obligations. The Firm's primary receivable is related to investment management activities. The Firm believes its credit risk exposure is limited since its revenue is ultimately related to management fees received from funds. These management fees are drawn throughout the year.

Other credit exposures include bank deposits and office rental deposits.

The Firm undertakes periodic impairment reviews of its receivables. All amounts due to the Firm are current and none have been overdue during the year. As such, due to the low risk of non-payment from its counterparties, the Firm is of the opinion that no provision is necessary. A financial asset is overdue when the 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.

The Firm has adopted the standardised approach to credit risk, and therefore follows the provision within BIPRU 3 (Standardised Credit Risk) of the FCA handbook. The Firm applies a credit risk capital component of 8% to its non-trading book risk weighted exposure. As it does not make use of an external credit rating agency, the Firm is obligated to use a risk weight of 100% to all non-trading book credit exposures, except cash and cash equivalents which are held by investment grade firms and currently attract a risk weighting of 20%.

The table below sets forth the Firm's credit exposures and corresponding capital resource requirements as at the date of its ICAAP assessment:

<b>Solo Basis</b>	<b>Credit Exposure</b>	<b>Risk weighted Exposure</b>
National Governments	£	£
Tangible fixed assets	£	£
Exposure to corporates	£114,816	£114,816
Cash at bank	£196,589	£39,318
Prepayments	£	£
Other	£0	£0
	-----	-----
Total	£311,405	£154,134
	=====	=====
<b>Credit Risk Capital Component (8% of risk weighted exposure)</b>		<b>£12,331</b>

## Market Risk

While the Firm holds no trading book positions on its own account, it does hold accounts in USD and EUR in addition to GBP. Therefore, it has non-trading book potential exposure in relation to the foreign currency position risk requirement only.

<b>Solo Basis</b>	<b>Risk weighted Exposure</b>
Foreign Currency Position	£76,365 -----
Total	£76,365 =====
<b>Market Risk Capital Component</b> (8% of foreign currency position)	<b>£6,109</b>

## Remuneration Code

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19C of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), and in accordance with ESMA's Guidelines on sound remuneration policies.

The Firm has considered all the proportionality elements in line with the FCA Guidance and has deemed it appropriate to disapply the Pay Out Rules. Furthermore, the Firm has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the Governing Body sets, and oversees compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

G2 will make the Pillar 3 quantitative disclosure following its first full performance period following its authorisation.