

# Pillar 3 Disclosure

## Introduction

PrimeStone Capital LLP (“Firm”) is required by the Financial Conduct Authority (“FCA”) to disclose information relating to the capital it holds and each material category of risk it faces in order to encourage market discipline.

In accordance with the FCA’s rules, the Firm will disclose the information set out in BIPRU 11 (the Pillar 3 rule) on at least an annual basis. This disclosure also satisfies the remuneration requirements under both MiFID and AIFMD.

The Capital Requirements Directive (“CRD”) creates 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 mis-statement 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.

The Firm may omit information it deems as immaterial, in accordance with the rules. 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. Accordingly, where the Firm has considered an item to be immaterial it has not been disclosed.

In addition, if the required information is deemed to be proprietary or confidential, then the Firm may take the decision to exclude it from the disclosure. In the Firm's view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with our customers, suppliers or counterparties. Where information is omitted for either of these reasons this is stated in the relevant section of the disclosure, along with the jurisdiction.

## Firm Overview

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a Full Scope Alternative Investment Fund Manager. The Firm's activities give it the prudential categorisation of a Collective Portfolio Management Investment ("CPMI") firm. The Firm is not required to prepare consolidated reporting for prudential purposes.

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

- Jean-Pierre Millet
- Benoît Colas
- Franck Falézan
- Shane Rothwell

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 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. Senior Management is accountable to the Governing Body for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

## Pillar 1 - Own Funds

As at the reference date for the Pillar 3 data -31 March 2021, the Firm on a solo basis the Firm's regulatory capital resources comprised of the following:

	GBP
Tier 1 Capital	£1,166,300
Tier 2 Capital	£0
Tier 3 Capital	£0
Total Capital	£1,166,300

The Firm's Tier 1 Capital is made up of fully paid up members' capital.

## Pillar 1 - Own Fund Requirement

As a CPMI, the Firm is subject to the requirement as set out in IPRU(INV) chapter 11, GENPRU and BIPRU, which sets out that the Firm must have own funds in excess of the:

- Funds under management requirement of €125,000 plus 0.02% of the AIF AUM exceeding €250,000,000;
- The sum of its market and credit risk requirements; and
- Fixed Overhead Requirement (which is essentially 25% of the firm's operating expenses less certain variable costs).

Plus

- Professional Negligence Requirement.

As at 31 March 2021, the Firm's Pillar 1 capital requirement was £456,062

## 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 ICAAP capital requirement. It has assessed Business Risks by modelling 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 Internal Capital Adequacy Assessment Process (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 Governing Body of the Firm determines the business strategy and risk appetite along with the design and implementation of defined and transparent risk management policies and procedures. Risk Management is viewed as a core part of the investment process.

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. An identification of risks to the Firm are considered and the Firm’s resultant exposure is assessed after management and mitigation of these risks. Furthermore, the Firm then conduct a series of stress tests and scenario analyses on these risks to determine the effect they would have on the Firm. As new risks arise, the relevant policies and procedures are updated where necessary. If necessary the Firm would allocate extra capital to the relevant risk.

**Senior management have identified the main risks to the Firm as per below:**

### Operational Risk

The Firm has identified a number of key operational risks to manage. These relate to loss of key staff, systems failure, failure of a third-party provider, potential for serious regulatory breaches, market abuse, fraud, financial promotions, trading error, or failure in administrative tasks. The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect. The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect. Operational risk is managed by a number of means, including the establishment of robust internal policies and controls, as well as taking out adequate comprehensive insurance.

### Business Risk

The most significant business risk faced by the Firm 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 Firm has limited exposure to market risk. Market risk is limited to exposure to foreign exchange fluctuations of the management fee, denominated in US dollars. Management fee income is normally converted from US dollars into sterling on a monthly basis and US dollar management fee income is retained only to the extent that it is required to match US dollar denominated liabilities.

## Credit Risk

The Firm is exposed to limited credit risk in respect of its debtors, investment management fees billed and cash held on deposit.

The number of credit exposures relating to the Firm's investment management clients is limited.

Management fees are drawn promptly when due from the funds managed and the Firm frequently monitors the credit worthiness of its banking counterparty. The Firm has concluded that its Tier 1 capital is sufficient to cover its Pillar 1 and Pillar 2 requirements.

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 the Firm does not make use of an external credit rating agency, it 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 reference date (date of its ICAAP assessment):**

The Firm has decided to cover professional liability risks by holding appropriate professional indemnity insurance cover.

Capital	£1,166,300
Funds under management requirement (a)	£216,290
Fixed overheads requirement (b)	£165,495
Credit risk + Market Risk (c)	£456,000
Additional own funds (d)	£76,235
Total Capital requirements (a) + (d)	£292,524
Surplus	£873,776

Solo Basis	Credit Exposure	Risk weighted Exposure
UK Government Bonds	£0	£0
Tangible fixed assets	£0	£0
Due from affiliates – within 3 months	£2,656,002	£2,656,002
Due from affiliates – after 3 months	£0	£0
Cash at bank	£428,445	£85,689
Prepayments	£	£
Other	£164,870	£147,727
Total	£3,249,317	£2,889,418
Credit Risk Capital Component (8% of risk weighted exposure)		£231,153

## Remuneration Code Disclosure

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19B 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 have considered all the proportionality elements in line with the FCA Guidance. Remuneration is designed to ensure that the Firm does not encourage excessive risk taking and staff interests are aligned with those of the clients.

The Governing Body, as the Remuneration Committee, is directly responsible for the overall remuneration policy which is reviewed annually. Variable remuneration is adjusted in line with capital and liquidity requirements as well as the Firm's performance. The Governing Body will review the remuneration strategy on an annual basis together with the Remuneration ("Code Staff").

The Firm ensures that its remuneration structure promotes effective risk management and balances the fixed and variable remuneration components for all Code and Non-Code staff. Total Remuneration is based on balancing both financial and non-financial indicators together with the performance of the Firm and the staff member's business unit. The Firm will monitor the fixed to variable compensation to ensure SYSC 19B is adhered to with respect to Total Compensation where applicable.

**In accordance with SYSC 19B, the Firm makes the following quantitative remuneration disclosure:**

### Code Staff Quantitative Remuneration

The Firm is required to disclose aggregate information on remuneration in respect of its Code Staff, broken down by business area and by senior management and other Code Staff. Senior management and members of staff whose actions have a material impact on the risk profile of the Firm are classified as Code Staff. The relatively small size and lack of complexity of the firm's business is such that the Firm only has the one business area, investment management and does not regard itself as operating, or needing to operate, separate 'business areas' and the following aggregate remuneration data should be read in that context. The aggregate remuneration of Code Staff for the year ending March 2021 was £1,259,717.

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