Farallon Capital Europe LLP

Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of Farallon Capital Europe LLP (the “Partnership”) is set out below as required by the FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (“BIPRU”) 11.3.3 R. This rule follows the introduction of the Capital Requirements Directive (“CRD”), which represents the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Partnership will be making Pillar 3 disclosures annually or more often, as appropriate. This disclosure is as at the most recent accounting reference date.

Media and Location

The disclosure is published on the Partnership’s website.

Verification

The information contained in this document has not been audited by the Partnership’s external auditors and does not constitute any form of financial statement.

Materiality

The Partnership 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 Partnership deems a certain disclosure to be immaterial, it may be omitted from this statement.

Confidentiality

The Partnership 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 Partnership’s investments therein less valuable. Further, the Partnership must regard information as confidential if there are confidentiality or other such obligations to customers or other counterparty relationships or employees or members.

Summary

The CRD requirements have three pillars:

- Pillar 1 deals with minimum capital requirements;
- Pillar 2 deals with the 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 deals with public disclosure of risk management policies, capital resources

and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Partnership is an investment management firm. It acts solely as agent, under a sub-advisory investment management agreement, and therefore it does not hold any client monies and assets. The Partnership's greatest risks have been identified as business and operational risks. The Partnership 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;
- the policies for hedging and mitigating risk; and
- the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

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

A number of key operations are undertaken by the Partnership's clients directly or are outsourced by its clients to third party providers such as administrators, thereby reducing the Partnership's exposure to operational risk. The Partnership has an operational risk framework (described below) in place to mitigate operational risk. The Partnership's main exposure to credit risk is the risk that sub-advisory investment management fees cannot be collected and therefore credit risk is low. The Partnership holds all cash balances with a major UK banking institution.

The Partnership has assessed market risk exposure, which is limited to the Partnership's exposure to cash amounts held by the Partnership in a foreign currency and the expected impact is low.

Background to the Partnership

Background

The Partnership is incorporated in the UK and is authorised and regulated by the FCA as an investment management firm. The Partnership's activities give its Prudential categorisation as a "BIPRU" firm.

The Partnership is a solo regulated entity.

The Partnership is a BIPRU firm without an investment firm consolidation waiver and deducts illiquid assets under GENPRU 2 Annex 5R.

As a BIPRU firm, the Partnership's capital requirements are the greater of:

- its base capital requirement of €50K; or
- the sum of its market and credit risk requirements; or
- its fixed overhead requirement

The Partnership's fixed overhead requirement (£738,000) establishes its capital requirement and therefore market and credit risks are considered not to be material as the fixed overhead requirement exceeds the market and credit risks as well as the base capital requirement.

The Partnership’s Capital Resource is £1,349,000 and therefore the surplus (Capital Resource – fixed overhead requirement) is £611,000.

BIPRU 11.5.1
Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Partnership has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The risk management process is overseen by the Chief Compliance Officer, with the Management Committee taking overall responsibility for this process (the “Governing Body”). The Governing Body meets at least quarterly.

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 Partnership’s risk appetite or tolerance for risk and ensures that the Partnership has implemented an effective, on-going process to identify risks, to measure their potential impact and 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 the Partnership.

Risk Framework

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

- the Governing Body responsible for risk management;
- the Partnership’s conservative approach to risk;
- the Risk Register, in which the Partnership has identified its risks and recorded them;
- periodic reviews of the Risk Register at meetings of the Governing Body;
- scenario analysis and stress tests on the most significant risks identified and undertaken by the Partnership. Such analysis and tests informs the Partnership how risks are likely to behave and what, if any, impact there is likely to be to the Partnership’s balance sheet; and
- an internal control framework to govern its processes and procedures and to mitigate any risks. The internal control framework includes stress tests of the Partnership’s liquidity and regulatory capital.

BIPRU 11.5.4
Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 Rule

BIPRU 3

For its Pillar 1 regulatory credit risk capital component, the Partnership adopted risk weights under the standardised approach to credit risk (BIPRU 3.4) and the simplified method of calculating risk weights (BIPRU 3.5).

Credit Risk calculation (These and other figures contained herein may be rounded)

Credit Risk Capital Requirement	**Rule**	**Capital Component**		
Credit risk capital component	BIPRU 3.2	£51,000		
Counterparty risk capital component	BIPRU 13 & 14	£0		
Concentration risk capital component	BIPRU 7	£0		
Total		**£51,000**		
	Rule	**Exposure**	**Risk Weight**	**Risk weighted exposure amount**
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc. long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc. short-term	BIPRU 3.4.39	£1,472,000	20%	£294,000
Exposure to Corporates/Debtors	BIPRU 3.4.52	£353,000	100%	£353,000
Past due items	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£0	100%	£0
Accrued investment management fees	BIPRU 3.4.128	£0	100%	£0
		£1,825,000		**£647,000**
Credit Risk Capital Component		8% of risk weighted exposure		**£51,000**

BIPRU 4

The Partnership does not adopt the Internal Ratings Based ("IRB") approach and therefore, BIRPRU 4 is not applicable.

BIPRU 7

The Partnership has potential exposure in non-trading book positions only under BIPRU 7.5. The remaining sections of BIPRU 7 are not applicable to it.

Overall Pillar 2 Rule

The Partnership 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 Governing Body and amended where necessary, on an annual basis or when a material change to the business occurs. The Governing Body reviews and endorses the risk management objective annually or when a material change to the business occurs as part of its ICAAP assessment process.

BIPRU 11.5.8
Disclosure: Credit Risk and Dilution Risk

The Partnership is primarily exposed to credit risk from the risk of non-collection of its sub-advisory fee, which is a relatively low risk. It holds all cash and performance fee balances with a major UK bank. 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
Disclosure: Market Risk

The Partnership has potential exposure in non-trading book positions only under BIPRU 7.5.

Market Risk calculation

PRR	Rule	Position	Risk	Weight
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£1,392,000	8%	£111,000
Option positional risk requirement	BIPRU 7.6	£0	8%	£0

Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
		£1,392,000		**£111,000**

BIPRU 11.5.2
Disclosure: Scope of application of directive requirements

The Partnership is not a member of a UK consolidation group and, consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3
Disclosure: Capital Resources

The Partnership is a BIPRU firm without an investment firm consolidation waiver and deducts illiquid assets under GENPRU 2 Annex 5R. Tier 1 Capital comprises of eligible LLP capital.

Tier 1 Capital	£1,622,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£1,622,000
Tier 3 Capital	£0
Deductions	£273,000
Total Capital	**£1,349,000**

BIPRU 11.5.5

The Partnership does not calculate risk weighted exposure amounts in accordance with the IRB approach to credit risk, nor does it have any retail exposures and therefore no disclosure is required under BIPRU 11.5.4R (3) or BIPRU 11.5.5R.

BIPRU 11.5.6

The Partnership does not calculate risk weighted exposure amounts in accordance with the IRB approach to credit risk, nor does it have any equity exposures and therefore no disclosure is required under BIPRU 11.5.4R (3) or BIPRU 11.5.6R.

BIPRU 11.5.7

This disclosure is not required as the Partnership does not have a trading book.

BIPRU 11.5.9

This disclosure is not required as the Partnership 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 **Disclosure:** Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach
This disclosure is not required as the Partnership uses the simplified method of calculating risk weights (BIPRU 3.5).

BIPRU 11.5.11 **Disclosure:** Firms calculating Risk Weighted Exposure amounts using the IRB Approach
This disclosure is not required as the Partnership has not adopted the IRB approach to credit and therefore is not affected by BIPRU 11.5.4R (3).
BIPRU 11.5.13 **Disclosure:** Use of VaR model for calculation of Market Risk Capital Requirement
This disclosure is not required as the Partnership does not use a VaR model for calculation of market risk capital requirement.
BIPRU 11.5.15 **Disclosure:** Non-Trading Book Exposures in Equities
This disclosure is not required as the Partnership does not have a non-trading book exposure to equities.
BIPRU 11.5.16 **Disclosure:** Exposures to Interest Rate Risk in the Non-Trading Book
Although the Partnership has a substantial cash balance on its balance sheet, there is currently no significant exposure to interest rate fluctuations.
BIPRU 11.5.17 Disclosure: Securitisation
This disclosure is not required as the Partnership does not securitise its assets or act as the sponsor or originator in relation to securitisation, or hold on its balance sheet any assets which are securitised assets.
BIPRU 11.5.18 **Disclosure:** Remuneration
The Partnership is a BIPRU firm and has applied the rules in SYSC 19C that are appropriate to its prudential catergorisation. The Governing Body is responsible for the Partnership's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements. **Remuneration Code Staff Remuneration (BIPRU 11.5.18(6))**

Business Area Remuneration	Total
Investment sub-advisory business	**£36,087,327**

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)	£34,196,222
Other Remuneration Code Staff	£0
Total	**£34,196,222**