

MKP Capital Europe LLP Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of MKP Capital Europe LLP (“the Firm”) is set out below as required by the Financial Conduct Authority (FCA)’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This 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. Defined terms used herein shall have the meaning ascribed to such terms in the FCA Handbook.

Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date (“ARD”).

Media and Location

The disclosure is published on our website.

Verification

The information contained in this document has not been audited by the Firm’s external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

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

Confidentiality

The Firm 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 Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with 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 which 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 Firm is an Investment Management Firm. It acts solely as agent, so the main protection to our customers is provided through client money arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm 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; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

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

A number of key operations are outsourced by our clients to third party providers such as administrators reducing our exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected and therefore credit risk is low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by the Firm in a foreign currency. All foreign currency is converted into GBP on a regular basis.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm.

The following entities are covered by the ICAAP:

- MKP Capital Europe LLP
- MKP Capital UK Ltd

The Firm is a solo regulated entity.

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)).

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

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

Governance Framework

The governing body of the Firm (the "Governing Body") has daily management and oversight responsibility. It meets periodically and is generally composed of the partners of the Firm

and a representative of MKP Capital UK Ltd.

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. The Firm's 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.

Risk Framework

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

- The Firm's Governing Body sets the risk tolerance for the Firm and is responsible for reviewing this at least annually;
- The Firm seeks to have a conservative approach to risk;
- The Firm has identified its risks and recorded them in a 'Risk Register';
- The 'Risk Register' is reviewed periodically
- The Firm has undertaken scenario analysis and stress tests on the most significant risks identified. This informs the Firm how risk are likely to behave and what, if any, impact there is likely to be to our balance sheet;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks;
- The Firm has adopted a three-point scoring matrix for determining the level of risk within its business (High, Medium, Low). Any risk rated High is deemed to be unacceptable to the Firm and must be addressed as a priority to ensure that it is able to receive a lower rating. Any risk rated Medium is assessed in order to determine whether controls may be tightened or Pillar 2 capital allocated. Other risks are deemed acceptable to the business.

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

BIPRU 3

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

MKP Capital Europe LLP - Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	1,569,000
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		£1,569,000

	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	£1,088,370	20%	£218,000
Exposure to Corporates / Debtors	BIPRU 3.4.53	£18,788,000	100%	£18,788,000
Past due item	BIPRU 3.4.96	£226,000	150%	£339,000
Fixed assets	BIPRU 3.4.127	£271,000	100%	£271,000

Accrued Investment management fees	BIPRU 3.4.128	£	100%	£
Total		£20,373,000		£19,616,000
Credit Risk Capital Component	8% of risk weighted exposure			£1,569,000

BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 6

The Firm, being a Limited Licence Firm is not subject to the Pillar I Operational Risk Requirement and, therefore, this is not applicable.

BIPRU 7

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4, 7.5](#)).

BIPRU 10

The Firm is not subject to the Large Exposure Rules at BIPRU 10 and, therefore, no disclosure on this is required.

Overall Pillar 2 Rule

The Firm 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 a periodic basis or when a material change to the business occurs. In addition, the Governing Body reviews and endorses the risk management objective.

BIPRU 11.5.8

Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of advisory and sub-advisory fees. It holds all cash and performance fee balances with Banks assigned high credit ratings. 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 Firm has Non Trading Book potential exposure only ([BIPRU 7.4](#) & [7.5](#)).

MKP Capital Europe LLP - Market Risk calculation

	Rule	Position	Risk Weight	PRR
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	£0	8%	£0
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		£0		£0

BIPRU 11.5.2**Disclosure:** Scope of application of directive requirements

The Firm is subject to the disclosures under the [Banking Consolidation Directive](#) and is a member of a UK Consolidation Group and consequently, reports on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3**Disclosure:** Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier I Capital comprises of LLP Members' Capital, Share Capital and Audited Reserves.

MKP Capital Europe LLP (Consolidated)

Tier I Capital	£19,559,013
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
Total Capital	£19,559,013

BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.6

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.7

This disclosure is not required as the Firm does not have a Trading Book.

BIPRU 11.5.9
This disclosure is not required as the Firm 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 Firm 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 Firm has not adopted the Internal Ratings Based 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 Firm does not use a VaR model for calculation of Market Risk Capital Requirement.			
BIPRU 11.5.14			
Disclosure: Operational Risk			
The Firm's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar I Operational Risk Capital calculation. The Firm's Pillar I Capital Resources Requirement is the Credit Risk Requirement as this is higher than the sum of the FOR and Market Risk Requirements.			
<table border="0"> <tr> <td>Credit Risk Requirement</td> <td>BIPRU 3.2</td> <td><u>£1,569,000</u></td> </tr> </table>	Credit Risk Requirement	BIPRU 3.2	<u>£1,569,000</u>
Credit Risk Requirement	BIPRU 3.2	<u>£1,569,000</u>	
BIPRU 11.5.15			
Disclosure: Non-Trading Book Exposures in Equities			
This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.			
BIPRU 11.5.16			
Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book			
Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.			
BIPRU 11.5.17 Disclosures: Securitisation			
This disclosure is not required as the Firm does not Securitise its assets.			

BIPRU 11.5.18**Disclosure: Remuneration**

The Firm is a Remuneration Code Proportionality Level 3 Firm and has applied the rules appropriate to its Proportionality Tier. The Governing Body is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Staff remuneration by business area (BIRPU 11.5.18(6))

Business area	Total remuneration
Investment Management	£1,100,000

MKP Capital Europe LLP's commitment to the UK Stewardship Code

Under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, MKP Capital Europe LLP (the "Firm") is required to include on this website a disclosure about the nature of its commitment to the UK Financial Reporting Council's Stewardship Code (the "Code") or, where it does not commit to the Code, its alternative investment strategy. The Code is a voluntary code and sets out a number of principles relating to engagement by investors with UK equity issuers. Investors that commit to the Code can either comply with it in full or choose not to comply with aspects of the Code, in which case they are required to explain their non compliance. We have detailed below the reasons why the firm has chosen not to commit to the Code.

The Firm pursues several distinct investment strategies that invest across global markets, including but not limited to global rates, FX, mortgage credit (including noninvestment-grade credit instruments), subordinated debt, commodities and global equities, including UK equities. The Code is therefore relevant to some aspects of the Firm's trading. While the Firm generally supports the objectives that underlie the Code, the Firm has chosen not to commit to the Code.

The Firm invests in a variety of asset classes and in a variety of jurisdictions globally. The approach of the Firm in relation to engagement with issuers and their management is determined globally, on a group-wide basis. The Firm (together with MKP Capital Management, L.L.C.) takes a consistent global approach to engagement with issuers and their management in all of the jurisdictions in which it invests and, consequently, does not consider it appropriate to commit to any particular voluntary code of practice relating to any individual jurisdiction.

For further information on the Firm's approach contact: Jonathan Clifton at mkp-compliance@mkpcap.com.