



## **Pillar 3 Disclosure**

June 2018

## Capital Requirements Directive

Following the Basel II Capital Accord, the European Union created the 2006 Capital Requirements Directive (“CRD”). The CRD outlines the capital framework requirements for financial firms. In the United Kingdom the Financial Conduct Authority (“FCA”) implements the CRD. The FCA implements these rules in the Handbook of Rules and Guidance (“FCA Handbook”).

The Sourcebooks relating to the CRD are the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

The CRD consists of three “Pillars”:

- (1) The firm must meet a minimum capital requirement for credit, market and operational risk
- (2) The firm and the FCA must determine whether or not there are additional risks to the firm that would increase the minimum capital requirements
- (3) Certain details must be published regarding the firm’s capital, risks and risk management process in accordance to the FCA Handbook

## Applicability to John Street Capital

John Street Capital LLP (“John Street Capital” or the “Firm”) is regulated by the FCA under BIPRU. John Street Capital falls within the scope of the CRD, and is categorised as a BIPRU €50,000 Limited Licence Firm and an Alternative Investment Fund Manager (AIFM), because:

- (1) It is incorporated in the United Kingdom and its head office is in the United Kingdom
- (2) It is not authorised to deal for its own account, underwrite issues of financial instruments on a firm commitment basis or operate a multilateral trading facility
- (3) It only offers the services of management of individual portfolios of investments
- (4) It is not authorised to hold client money or securities
- (5) It manages an unauthorised AIF

As a BIPRU €50,000 Limited Licence Firm and an Alternative Investment Fund Manager (AIFM), John Street Capital’s capital requirement is the greater of:

- (1) A minimum of €125,000 plus the excess under the Professional Indemnity Insurance; and
- (2) A Fixed Overhead Requirement (3 months overhead expenditure); and
- (3) The aggregate of the market and credit risk

This figure represents John Street Capital’s Pillar 1 Capital.

John Street Capital is required to assess its key risks and, if necessary, make an upward adjustment to its Pillar 1 Capital.



This is called a Pillar 2 adjustment and John Street Capital's assessment of any Pillar 2 adjustment is detailed below under the Business Risk Management and Capital Resource Requirements sections.

John Street Capital is required to make a public disclosure regarding its capital, risk exposures and risk assessment processes. This is the Pillar 3 Disclosure. John Street Capital has elected to make its Pillar 3 by disclosure of this document on its website.

Under the disclosure rules, John Street Capital is allowed to omit certain disclosures if it believes that the information is immaterial or if the information is proprietary and confidential.

## Business Risk Management

The partners of John Street Capital (the “Partners”) are responsible for the management of the risks related to the business of the Firm.

The Partners meet regularly to discuss all key business issues, including projections on profitability, business planning, cash flow projections, regulatory capital management, 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 John Street Capital's risk management framework and is reviewed and updated no less frequently than annually. The ICAAP identifies 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.

The main risks of the Firm are as follows:

Risk	Risk Outline	Risk Management
<b>Operational</b>	This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.	The Firm 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.
<b>Business</b>	This is a risk of a substantial and sustained reduction in assets under management, caused by adverse market conditions or investor redemptions, resulting in a loss of management fee income.	The Partners consider business risks factors in planning and decision-making and consider various scenarios such as poor fund performance and investor redemptions.
<b>Market</b>	<p>This is the risk of loss resulting from market value changes in the value of positions held.</p> <p>The Firm is exposed to market risk through foreign exchange movements on positions held in foreign currencies (e.g. bank accounts and management and performance fees). Fees are mainly collected in USD whilst the Firm balance sheet is denominated in GBP.</p>	<p>The Firm does not hold principal positions and therefore not directly impacted by market risk on the firm’s balance sheet.</p> <p>The currency market risks are monitored by the Partners and may be hedged if deemed necessary.</p>

<p><b>Credit</b></p>	<p>This is the risk that a third party will default on a financial obligation. The Firm is exposed to credit risk from:</p> <ul style="list-style-type: none"> <li>- Fund management and performance fees due from the investment vehicles which the Firm manages; and</li> <li>- The cash deposits which are held by authorised banks on behalf of the Firm.</li> </ul>	<p>The Firm have a policy in place to ensure such fees are received in a timely manner.</p> <p>Cash balances are held in instant access accounts and readily available.</p>
<p><b>Liquidity</b></p>	<p>This is the risk that the Firm is unable to meet its liabilities as they fall due.</p>	<p>The Firm maintains a surplus of liquid resources sufficient at all times to meet any immediate requirements we can prudently foresee.</p> <p>The Firm's capital is held in instant access accounts with a large global bank, and our bank accounts are reconciled and cash flow statements are prepared on a regular basis to ensure that all liabilities are understood and settled.</p>
<p><b>Remuneration</b></p>	<p>As a €50,000 Limited Licence firm, John Street Capital falls within Tier 4 of the proportionality guidance notes issued by the Financial Conduct Authority in December 2010. The Partners have defined "Code Staff" to be the current Partners of the firm.</p>	<p>All remuneration decisions are made by the Partners of the Firm. The Partners review the performance of all employees and determines the remuneration based on this review.</p>

## Capital Resources

John Street Capital is a BIPRU €50,000 Limited Licence Firm and an Alternative Investment Fund Manager (AIFM). John Street Capital calculates capital resources in accordance with GENPRU 2.2.

## Capital Resource Requirements

The Firm's Pillar 1 requirement is calculated as the higher of:

- (1) The Base Capital Requirement (€125k) plus the excess under the Professional Indemnity Insurance
- (2) The Variable Capital Resource Requirement which is the sum of:
  - (a) The Credit Risk Capital Requirement; and
  - (b) The Market Risk Capital Requirement.
- (3) The Fixed Overheads Requirement (3 months expenditure of the firm)

Currently, the highest requirement is the Credit and Market Risk Capital Requirements and therefore neither the Base Capital Requirement nor Fixed Overhead Requirement are material to the Firm as set out above. John Street Capital believes our financial details are both proprietary and confidential, and chose to omit this information from publishing.

The firm and its management are aware of the requirements and ensure that there is at all times adequate capital resources available to meet the Firm's obligations.

The detailed results of the ICAAP are available for inspection at the Firm's offices at 29 Ely Place, London EC1N 6TD.

## Pillar 1 and Pillar 2

As at the date of this report the Firm has a surplus of capital resources over its Pillar 1 capital resources requirement. John Street Capital undertakes an Internal Capital Adequacy Assessment Process (ICAAP) regularly to determine whether it needs any further regulatory capital due to the risks it faces as set out above.

As a result of this the Firm has conclude that there is no need for any further regulatory capital to meet Firm requirements under Pillar 2.