

# Lombard Odier Asset Management (Europe) Limited

## Pillar 3 Disclosure

31 December 2017

### 1. Introduction

#### Regulatory Context

This document sets out the Pillar 3 disclosures for Lombard Odier Asset Management (Europe) Limited (“the Firm”). It fulfils the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to collectively as CRD IV. The Capital Requirements Directive (“CRD”) which represents the European Union’s application of the Basel Capital Accord which provides the framework for international convergence of capital standards across European regulated financial firms.

These disclosures are laid out in accordance with the requirements of the EU’s Capital Requirements Regulation (EU 575/2013) (“CRR”) articles 431 to 455 (Disclosures by Institutions).

The Pillar 3 disclosure is set out below as required by the FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#).

#### 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 will be published on the following site:

<https://www.lombardodier.com/home/asset-management-regulatory-disc.html>

#### 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 mis-statement could change or influence the assessment or decision of a user relying on that information for the purposes 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.

## 2. 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.

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. The firm holds sufficient foreign currency to cover its foreign currency liabilities while excess amounts are converted into GBP on a regular basis.

## 3. 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.

The Firm is the only entity covered by this disclosure.

The Firm is a solo regulated entity as determined by BIPRU 8 Annex 1. It does not form part of either a UK Consolidation Group or any other form of Consolidation Group as currently structured.

Since the Firm is not part of a Consolidation Group it does not hold an Investment Firm Consolidation Waiver. The Firm deducts Material Holdings and establishes its Pillar 1 Capital Resources and Capital Resources Requirement in line with GENPRU 2 Annex 4.

## 4. Risk Management

### Risk Management Objective

The Firm has risk management objectives to develop systems and controls to mitigate risk to within its risk appetite. The Firm’s risk management objectives are to:

1. Assist management in aligning LOIM’s business strategy to its risk appetite
2. Meet the expectations of LOIM’s clients, partners, regulators and stakeholders ensure the firm’s risks are appropriately managed and escalated to the relevant Business Heads, the Local Management Committee or the Board, as appropriate
3. Embed a rigorous Internal Control Framework throughout the firm to identify, measure, manage, monitor and report (IMMMR) risks that can be reasonably mitigated, based on a clear and coherent risk appetite
4. On-going measurement and monitoring of the risks identified in the Risk Assessment Matrix, as well as the Key Risks Indicators covered in the Risk Appetite Statement
5. Protect LOIM’s capital to ensure its long term going concern
6. Promote a risk culture based on integrity, professionalism and competence

The Firm is committed to ensuring that activities are conducted and staff behave in accordance with all current and future requirements in terms of Risk Management. In practical terms, the Firm’s employees are required to comply with the in-house regulatory code.

## Governance Framework

The Board of the Firm is the Governing Body of the Firm.

The Board of the Firm has delegated the daily management of the Firm to an Executive Committee comprising of senior members of the Firm. The Board retains the oversight responsibility.

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 Executive Committee 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 Board, in liaison with the senior management sets the risk strategy policies.
- The Firm has a conservative approach to risk;
- The Firm has identified its key risks and recorded them in a "Risk and Control Matrix";
- The Firm has undertaken scenario Analysis and Stress Tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to the Firm's balance sheet;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks;
- The Firm Risk Management Framework is considered in more detail in its ICAAP

## 5. Capital Resource

### Pillar 1

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).

#### Credit Risk Calculation

Credit Risk Capital Requirement		Rule		GBP	
Credit Risk Capital Component		BIPRU 3.2		£	1,806,010.19
Counterparty Risk Capital Component (likely to apply only to Firms dealing as Principle)		BIPRU 13 & 14		£	-
Concentration Risk Capital Component (likely to apply only to Trading Book)		BIPRU 10		£	-
<b>Total</b>				<b>£</b>	<b>1,806,010.19</b>

  

	Rule	Exposures		Risk Weighted Exposure Amounts
UK Government Bodies (e.g. HM Revenue & Customs)	BIPRU 3.4.2	£ -	0%	£ -
National Currency (held in hard currency, such as Petty Cash)	BIPRU 3.4.5	£ -	0%	£ -
Banks etc. Long Term (deposits held on 3 or >3 month term)	BIPRU 3.4.36	£ -	50%	£ -
Banks etc. Short Term (current accounts or deposits <3 months)	BIPRU 3.4.39	£34,343,879.97	20%	£ 6,868,775.99
Banks etc. Short Term (current accounts or deposits <3 months)	BIPRU 3.4.39	£ 2,606,841.32	20%	£ 521,368.26
Investment Management Fee Debtor/Owing by Corporate (funds held by Corporates)	BIPRU 3.4.53	£ 6,716,205.05	100%	£ 6,716,205.05
Past Due Item (where only part of a sum owing remains outstanding)	BIPRU 3.4.96	£ -	100%	£ -
Collective Investment Undertakings (BIPRU 3.4.118, 123 or 124)	BIPRU 3.5.5	£ -	100%	£ -
Pre-Payments	BIPRU 3.4.128	£ -	100%	£ -
Pre-Payments	BIPRU 3.4.128	£ -	100%	£ -
Pre-Payments	BIPRU 3.4.128	£ -	100%	£ -
Pre-Payments	BIPRU 3.4.128	£ -	100%	£ -
Pre-Payments	BIPRU 3.4.128	£ 934,884.21	100%	£ 934,884.21
Other debtors	BIPRU 3.4.128	£ 1,504,904.21	100%	£ 1,504,904.21
Fee Accruals (where Investment Management Fees or Performance Fees Accrued)	BIPRU 3.4.128	£ 5,794,052.24	100%	£ 5,794,052.24
Fixed Assets (Tangible Fixed Assets only)	BIPRU 3.4.127	£ 234,937.45	100%	£ 234,937.45
<b>Total</b>		<b>£ 52,135,704.45</b>		<b>£ 22,575,127.42</b>

  

Credit Risk Capital Component	8% of Risk Weighted Exposure Amounts	
Counterparty Risk Capital Component	BIPRU 13 & 14	Not Applicable
Concentration Risk Capital Component	BIPRU 10	Not Applicable
		<b>£ 1,806,010.19</b>

## Overall Pillar 2 Rule

The Firm has adopted the "Pillar 1 Plus" approach to the calculation of its ICAAP Capital Resources Requirement as outlined by the U.K's "Investment Association's ICAAP Guidance" May 2016.

The ICAAP assessment is reviewed by the Executive Committee and updated on an annual basis, or more frequently if a material change to the business occurs. The Executive Committee presents the ICAAP document to the Governing Body of the Firm, which reviews and endorses the risk management objective at the same time as reviewing and signing off the ICAAP document.

## 6. Credit Risk and Dilution Risk

The Firm's main exposure to credit risk is cash held in deposit with the parent bank Lombard Odier & Cie. Over 90% of the Firm's cash is held with the parent, an AA rated bank. The Firm holds all other cash and performance fee balances with banks assigned high credit ratings.

In terms of external third party credit risks, there is the risk that management and performance fee receivable become unrecoverable. However, as fees are primarily charged and collected from client accounts, this credit risk is considered low.

## 7. Market Risk

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. The firm holds sufficient foreign currency to cover its foreign currency liabilities while excess amounts are converted into GBP on a regular basis.

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

### Market Risk Calculation

	Rule					
Interest Rate Positional Risk Requirement (IRPRR) (Trading Book)	BIPRU 7.2	£	-	8%	£	-
Equity Positional Risk Requirement ("EPRR") (Trading Book)	BIPRU 7.3	£	-	8%	£	-
Commodity Positional Risk Requirement ("CPRR") (Trading Book and Non-Trading Book)	BIPRU 7.4	£	-	8%	£	-
Foreign Currency Positional Risk Requirement ("FCPRR") (Trading & Non-Trading Book)	BIPRU 7.5	£	4,807,004.07	8%	£	384,560.33
Option Positional Risk Requirement ("OPRR") (Trading Book)	BIPRU 7.6	£	-	8%	£	-
Collective Investment Undertaking Positional Risk Requirement ("CIUPRR") (Trading Book)	BIPRU 7.7	£	-	32%	£	-
<b>Total</b>		<b>£</b>	<b>4,807,004.07</b>		<b>£</b>	<b>384,560.33</b>
<b>Market Risk Capital Requirement</b>					<b>£</b>	<b>384,560.33</b>

## 8. Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier 1 Capital comprises Shares Share Premium Accounts Subordinated Debt and Audited Reserves/Losses.

Tier 1 Capital	£25,872,996
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
<b>Total Capital</b>	<b>£25,872,996</b>

## 9. Operational Risk

The Firm's Fixed Overhead Requirement (FOR), GENPRU 2.1.53, is disclosed as a proxy for the Pillar 1 Operational Risk Capital calculation. The Firm's Pillar 1 Capital Resources Requirement is the higher of FOR and the sum of Market Risk and Credit Risk Requirement.

Fixed Overhead Requirement: [GENPRU 2.1.53](#): **£7,982,322**

## 10. Remuneration

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

The firm has publicly disclosed the Remuneration of Code Staff and the Aggregate quantitative variable remuneration by senior management within its Audited Financial Statements.