FCA Pillar 3 disclosures

The Capital Requirements Directive ('the Directive') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;

- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and

- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet the Pillar 3 obligations. FCA authorized firms are permitted to omit required disclosures if they believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, a firm may omit required disclosures where the firm believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine a firm's competitive position. Information is considered to be confidential where the firm has obligations binding it to confidentiality with its customers, suppliers and counterparties. Other than those mentioned below, this document has no omissions on the grounds that the information is immaterial, proprietary or confidential.

Scope and application of the requirements

Greenlight Capital (UK) LLP ("GCUK") is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. GCUK is categorised as a BIPRU €50,000 limited licence firm by the FCA for capital purposes. It is an investment services firm and as such has no trading book exposures. GCUK falls within the FCA's third proportionality level. As such, disclosures made herein are in line with the requirements for a Level 3 firm.

GCUK and its corporate partner, Greenlight Capital Holding (UK) Ltd., are members of a UK consolidation group ("Greenlight UK") and so is required to prepare consolidated reporting for prudential purposes at the level of the immediate parent. Greenlight UK foresees no impediments to the prompt transfer of capital between group entities should the need arise and there are no differences in the basis of consolidation for accounting and prudential purposes.

Risk management

Greenlight UK's senior management determines its business strategy and risk appetite. Senior management also is responsible for establishing and maintaining GCUK's governance arrangements along with designing and implementing a risk management framework that recognises the risks that GCUK faces.

Senior management has identified business, operational, market and credit risks as the main areas of risk to which Greenlight UK is exposed. Senior management formally review the risks, controls and other risk mitigation arrangements and assess their effectiveness. Where senior management identifies material risks, they consider the financial impact of these risks as part of the business planning and capital management and conclude whether the amount of regulatory capital is adequate.

Remuneration

Greenlight UK's senior management determines the remuneration policy of GCUK. Due to the size and simplicity of GCUK, senior management has not appointed a remuneration committee. GCUK's remuneration policy (1) is consistent with, and promotes, sound and effective risk management, (2) does not encourage excessive risk taking, (3) includes measures to avoid conflicts of interest, and (4) is in line with Greenlight UK's business strategy and objectives. Senior management reviews the remuneration policy annually.

Remuneration for Greenlight UK employees, including staff subject to the Remuneration Code, is based on three separate components: (1) base salaries, which are fixed and low (based on total individual remuneration), (2) a participation interest in the net profits, calculated as a percentage of the net profits, depending on the function and level of seniority of the employee, and (3) a discretionary bonus based on overall performance, set by the executive management team of the US parent. The second item, participation interest, is meant to capture the overall performance of the firm, while the third item, discretionary bonus, is meant to capture individual performance. The discretionary bonus takes into account both quantitative aspects (wherever possible) as well as qualitative aspects of performance as assessed by senior management. Quantitative criteria used for bonus calculation include the performance of investments for research analysts, and the quality of trading execution for traders.

Generally one-third of all non-salary compensation (the sums of items (2) and (3)) is unvested for a period of three years, and it can be indexed to the performance of the private investment vehicles managed by an affiliate for the period between vesting and payment. Individuals who leave GCUK prior to the three-year vesting period, unless they are terminated without cause, lose any unvested compensation.

Greenlight UK has determined that, due to the limited number of staff, disclosure of aggregated remuneration amounts for the financial year would result in the disclosure of remuneration amounts that could be attributed to specific employees when such information is combined with publicly available information about GCUK.

Regulatory capital and capital adequacy

GCUK's capital arrangements are established in its Partnership Agreement and Greenlight UK reports its regulatory capital requirements on a consolidated basis. Greenlight UK's capital is summarised as follows:

Capital Resources as of 31 March 2020	
Share capital and minority interest	£155,000
Profit and loss account and other reserves	£1,328,000
Less Adjustments	nil

Total Tier 1 Capital	**£1,483 ,000**

As discussed above, GCUK is a limited licence firm and as such Greenlight UK's regulatory capital requirements are the greater of:

- Its base capital requirement of €50,000 stated in its reporting currency; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement; and
- Any additional capital requirements pursuant to its Internal Capital Adequacy Analysis Process.

Greenlight UK has a simple operating structure with limited risks and follows the standardised approach to market risk and the simplified standard approach to credit risk. Greenlight UK is subject to the Credit Risk Capital Requirement and Fixed Overhead Requirement and is not required to calculate an operational risk capital charge. Greenlight UK has not identified the minimum capital requirement for market risk as senior management believes that it is immaterial. As detailed below, Greenlight UK's experience establishes the Fixed Overhead Requirement of £142,278 as its capital requirement.

Capital Adequacy as of 31 March 2020			
Pillar 1 Capital Requirement (greatest of the following)			
BIPRU Base Capital	£44,457		
Fixed Overhead Requirement	£142,278		
Sum of Credit and Market Risk	£47,000		
Final Pillar 1 Capital Requirement		£142,278	
Additional Capital Required under Pillar 2			
Operational Risk		nil	
Business Risk		nil	
Credit Risk		nil	
Market Risk		nil	
Less allowable adjustment		nil	
Final Pillar Capital Required as of 31 March 2020			£142,278
Additional Capital Required if Stress Test is Greater than Pillar Capital			nil
ICAAP Requirement			£142,278
Current Tier 1 Capital as of March 31, 2020			£1,483,000
Surplus/(Deficit)			**£1,340,722**