

# The ECU Group plc – Pillar 3 Disclosure

## For year ended 31 December 2010

### Introduction

The ECU Group plc ('ECU') is authorised and regulated by the Financial Securities Authority ('FSA'). ECU is an investment manager and is categorised as a Limited Licence BIPRU €50k firm by the FSA. As part of the Capital Requirement Directive, the Company is required to carry out an Internal Capital Adequacy Assessment Process ('ICAAP').

The capital requirements for firms such as ECU have been enacted in the United Kingdom through the FSA Handbook and particularly within the FSA Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). The rules are set out under three Pillars:

**Pillar 1** is a variable capital requirement based on the sum of operational, market and credit risk requirements. A firm must maintain at all times capital resources equal to or in excess of the amount specified.

**Pillar 2** requires each firm and its supervisor to review whether additional capital should be held against risks not covered in Pillar 1, to instigate additional controls to mitigate such risks or a combination of these two approaches.

**Pillar 3** requires firms to publish certain details of capital and risk management and to review and update this information at least annually.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements for investment firms and credit institutions that will allow other market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The disclosures are to be made public for the benefit of the market. To comply with the new regulatory capital framework the rules built on 3 Pillars have to be followed.

Under the rules a firm may omit one or more disclosures where the information provided by such disclosure is not regarded as material.

The disclosures below are the required Pillar 3 disclosures and apply solely to ECU and should be read in conjunction with our financial statements to ensure all matters relevant to the firms Capital Adequacy and risk management are understood.

### The company

ECU was incorporated in 1988 and is authorised and regulated by the FSA to conduct investment business, without permission to hold and control client money. The firm is categorised as a Limited Licence Firm by the FSA for capital purposes.

ECU's business operations are solely based in the UK and its principal activity is the provision of discretionary investment management services, primarily in the currency markets, on both multi-currency loan facilities and margin accounts and also is investment advisor to a Global Macro Hedge Fund.

### Risk management objectives and policies

ECU maintains an uncomplicated company structure, it does not hold client money or other collateral. The board has categorised the Company as simple and consequently the ICAAP has been prepared in the context of this categorisation.

ECU places a high priority on a strong risk management culture and recognises that risk is inherent in its business and the markets in which it operates.

The principal risk areas which ECU faces and seeks to manage are investment risk, credit risk, market risk, liquidity risk and operational risk.

#### *Investment risk*

Poor investment performance is likely to result in client redemptions and a reduction in management and performance fee revenue. ECU manages this risk by:

- Recruiting and retaining talented investment managers with proven track records and the ability to generate strong risk adjusted returns;
- Maintaining rigorous risk management and monitoring processes; and
- Producing independently verified monthly performance analysis.

# The ECU Group plc – Pillar 3 Disclosure

## For year ended 31 December 2010

### *Credit risk*

ECU manages multi-currency loan facilities and margin accounts, and executes orders, on behalf of its clients, at appropriately regulated banks and prime brokers. ECU does not hold client money. The likelihood of a default in the payment of management and performance fees is relatively low and the Company's primary credit risk is on its own bank cash deposits.

- Cash deposits are held only with highly rated bank counterparties; and
- Trades are executed with highly rated counterparties.

### *Market risk*

ECU's management fees and performance fees are primarily received in GBP, however some fees are received in USD and EUR. As the Company reports in GBP there is some exchange rate risk which is managed by:

- Converting USD and EUR management and performance fees into GBP promptly and ideally when rates are favourable.

### *Liquidity risk*

ECU manages the risk of being unable to meet its financial obligations as they fall due by:

- Holding money in deposit accounts that have immediate access or in short dated fixed term deposits;
- Monitoring bank balances on a regular basis; and
- Maintaining adequate working capital to cover expenses for an extended period.

### *Operational risk*

ECU manages the risk of a sharp fall in management and/or performance fees by:

- Recruiting, retaining and maintaining high calibre employees;
- Continuously reviewing and upgrading internal controls and procedures; and
- Using its many years of experience of providing these services.

## Capital Resources Requirement (CRR)

The capital resources of the business comprise Tier 1 capital after any required deductions. As a Limited Licence Firm the capital resources requirement is calculated as the total of Pillar 1 and Pillar 2 capital.

Pillar 1 capital is the greatest of:

- A base capital requirement of €50,000;
- The sum of market and credit risk requirements; and
- The Fixed Overhead Requirement (FOR).

Pillar 2 capital represents any additional capital to be maintained against any risks not adequately covered under the requirements of Pillar 1 as part of ECU's ICAAP.

It is ECU's experience that its capital requirement normally consists of FOR, although market and credit risks are reviewed periodically. ECU applies a standardised approach to credit risk, applying 8% to its risk weighted exposures, which consists mainly of fees due but not paid and bank balances.

Having performed the ICAAP it is ECU's opinion that no additional capital is required in excess of the Pillar 1 capital requirement.

As at 31st December 2010 the regulatory CRR was:

	£'000
Total Tier 1 Capital after Deductions	1,850
Pillar 1 Requirement	682
Pillar 2 Requirement	0
<b>Capital in excess of Requirement</b>	<b>1,168</b>

In conclusion, ECU is sufficiently capitalised for its operations and the risks to which it is exposed.