King Street (Europe) LLP
Pillar 3 Disclosure
30 November 2020
FCA Pillar 3 disclosures

King Street (Europe) LLP (the "LLP") is a member of the King Street group, a global investment management group. The LLP is authorised and regulated by the Financial Conduct Authority (the "FCA") in the United Kingdom. The LLP provides investment management services to King Street Capital Management, L.P. ("KSCM"), an affiliated U.S.-based investment adviser. Please refer to the LLP's entry in the FCA register for more information about its permissions and activities.

The Third Capital Requirements Directive ("the Directive") of the European Union established a revised regulatory capital framework across Europe, governing the amount and nature of capital credit institutions and investment firms must maintain. Notwithstanding that the Directive has now been superseded by the legislative package commonly referred to as "CRD IV", Article 95(2) of the Capital Requirements Regulation (which forms part of the CRD IV package) permits European regulators to continue to apply the requirements of the Directive to certain types of regulated firm (including the LLP). In the United Kingdom, the FCA has chosen to continue to apply the Directive to such firms. The Directive remains implemented by the 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 FCA's rules in Chapter 11 of BIPRU implement the Pillar 3 requirements referred to above and require the LLP to make certain public disclosures regarding its capital, risks, risk assessment process, and remuneration policy. This document contains the disclosures that the LLP has made in order to comply with its obligations under BIPRU 11. The disclosures in this document relate solely to the LLP and, where relevant, to King Street European Advisors Limited ("KSEA"), the LLP's corporate member, and not to any other member of the King Street group or the investment funds managed by the King Street group.

Scope and application of the requirements

As the LLP is authorised and regulated by the FCA, it is subject to minimum regulatory capital requirements. The LLP is categorised as a BIPRU firm by the FCA for the purposes of the FCA's capital resources rules. The LLP is an investment management firm and as such has no trading book exposures.

The LLP is a member of a UK consolidation group (consisting of the LLP and KSEA) and so is required to prepare consolidated reporting at the level of the UK consolidation group for prudential purposes. We foresee 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

The LLP's Governance Committee (which constitutes its governing body) determines the LLP's business strategy and risk appetite. The Governance Committee is responsible for establishing and maintaining the LLP's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Governance Committee also determines how the risks that the business faces may be mitigated and assesses, on an ongoing basis, the arrangements to manage those risks. The Governance Committee manages the LLP's and the UK consolidation group's risks though a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. Staff are trained on these policies and procedures during the on-boarding process and via periodic reminders, and relevant staff receive additional compliance training at least annually. The LLP's risk mitigation policies and procedures are assessed annually as part of the LLP's annual risk review and detailed in the LLP's ICAAP report.

Through the annual ICAAP process, the Governance Committee has identified that business, operational and market risks are the main areas of risk to which the LLP and the UK consolidation group is exposed. As part of that process, the Governance Committee formally reviews on an ongoing basis the LLP's and the UK consolidation group's risks, controls and other risk mitigation arrangements and assesses their effectiveness and updates them as necessary. Where the Governance Committee identifies that material risks exist, it considers the financial impact of these risks as part of the business planning and capital management and concludes whether the current amount of the LLP's and/or the UK consolidation group's regulatory capital continues to be adequate in light of the relevant risks.

The LLP benefits from and operates within the risk management framework that has been implemented globally across the King Street group's operations. The King Street group has established substantial infrastructure designed to manage the full range of business and operational risks faced by a global investment management business. This infrastructure includes employees with expertise in a range of disciplines, including operations, finance, tax, legal, and compliance, who are managed by highly experienced professionals and supported by external advisers that are experts in their respective fields. The King Street group, including the LLP, also utilizes sophisticated technological and systems infrastructure to support its activities and to facilitate the monitoring and management of a range of potential risks. The King Street group, and the LLP, seek to minimize business and operational risk to the greatest extent to which it is efficient to do so.

The LLP's risk management, business planning, and capital management processes are kept current by the continued input of the King Street group's senior management, the LLP's Governance Committee, Compliance Officer and Money Laundering Reporting Officer, and members of the King Street group's Compliance and Operations groups.

Regulatory capital

The regulatory capital of the UK consolidation group (consisting of the LLP and KSEA) is summarised as follows:

Shareholders	£'000
King Street Capital Management, L.P.	7,840
Four individual members	20
Total capital arrangements	7,860

The main features of King Street European Advisors Limited capital resources for regulatory purposes are as follows:

Capital	£'000
Tier 1 capital less innovative tier 1 capital	5,920
Total tier 2, innovative tier 1 and tier 3 capital	—
Deductions from tier 1 and tier 2 capital	—
Total capital resources, net of deductions	5,920

The LLP is small with a simple operational infrastructure. With the exception of the receivable from its parent company, KSCM, there is no significant credit risk arising from the LLP's or the UK consolidation group's operations. Arrangements with the parent company have been made for adequate funding to be made available for the LLP's and the UK consolidation group's operating requirements, if necessary. The LLP and the UK consolidation group are subject to the Fixed Overhead Requirement and are not required to calculate an operational risk capital charge, though the LLP considers this as part of its ICAAP process to identify the level of risk based capital required.

As discussed above the LLP is a BIPRU firm and as such its and the UK consolidation group's capital requirements are the greater of:

(A) the base capital requirement of €50,000; or
(B) the sum of the market and credit risk requirements; and
(C) the Fixed Overhead Requirement.

The LLP uses the simplified standardised approach to calculate its and the UK consolidation group's credit risk requirement (as a percentage of the risk weighted values of its credit exposures, as determined in accordance with the rules in BIPRU). Market risk is calculated by using the foreign currency position risks requirement ("PRR") method. The sum of the UK consolidation group's credit and market risk requirements was greater than its base capital requirement but less than its FOR as at 30 November 2020.

The UK consolidation group's Fixed Overhead Requirement (as the highest of the three amounts described in A, B, and C above) represents its Pillar 1 regulatory capital requirement. The Fixed Overhead Requirement is calculated as 13 weeks' fixed expenditure based on the most recent audited financial statements. The UK consolidation group's Fixed Overhead Requirement was £1,844,908 as at 30 November 2020. The actual capital held by the UK consolidation group as at 30 November 2020 was £5,920,104 resulting in a surplus of £4,075,196.

The Internal Capital Adequacy Assessment Process

The LLP conducts an annual ICAAP and risk assessment with the assistance of members of the King Street group's Compliance and Accounting teams. The resulting report is presented to the LLP's Governance Committee for consideration, challenge, and approval. Generally, the ICAAP report serves to keep the Governance Committee apprised of the ongoing assessment of risks facing the LLP and the UK consolidation group, how the LLP mitigates those risks, and the adequacy of the LLP's and the UK consolidation group's capital should the material risks identified materialise. The LLP's ICAAP report includes:

- A review of the LLP's risk management framework and risk appetite;
- The identification of the major sources of risk to the LLP's and the UK consolidation group's business and operations;
- A discussion of the capital planning and stress testing utilized by the LLP;
- Confirmation that the LLP's risk management processes and procedures are comprehensive and proportionate to the nature, scale, and complexity of the LLP's business and activities; and
- Confirmation that the LLP and the UK consolidation group have adequate capital for the duration of their planning horizon given their relationship with KSCM and the nature and level of the risks to which they are or might be exposed.

The LLP considers the estimated costs of an orderly wind-down of the UK consolidation group as part of its ICAAP. The LLP believes that the UK consolidation group maintains sufficient capital to meet its liabilities for the duration of an orderly wind-down process. As part of the LLP's analysis, it also considers the arrangements in place with KSCM under existing investment advisory and services agreements.

Remuneration Disclosure

The LLP has adopted a remuneration policy that complies with the requirements of chapter 19C of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook ("SYSC"), as interpreted in accordance with the FCA's guidance publication entitled "General Guidance on Proportionality: The BIPRU Remuneration Code (SYSC 19C) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" and additional items of guidance issued or adopted by the FCA, including its document entitled "Frequently Asked Questions on the Remuneration Code".

As a BIPRU firm, the LLP has concluded, on the basis of its size and the nature scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the King Street group's Remuneration Panel sets, and oversees compliance with, the LLP's remuneration policy including reviewing the terms of the policy at least annually.

As at the accounting reference date, the LLP currently sets the variable remuneration of its staff in a manner which takes into account staff and firm performance, by reference to individual employee performance; performance of the individual's business unit or department and the overall results of the LLP and the King Street group. As permitted for BIPRU firms, the LLP takes into account the specific nature of its own activities (including the fee based nature of its revenues and its transfer pricing arrangements with KSCM) in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

The LLP only has one "business area", namely its sub-advisory asset management business. All of the LLP's Code Staff fall into the "senior management" category of Code Staff (rather than the "risk taker" category) for the purposes of the Remuneration Code. The total "remuneration" (as defined in the FCA Rules) awarded to the LLP's Code Staff during the calendar year ending on 31 December 2020 was £6,062,073.

Items omitted from the Pillar 3 Disclosures

The LLP's minimum capital requirement under Pillar 1 is driven by its FOR and not the sum of its credit risk and market risk requirements. The LLP has, accordingly, concluded that the detailed disclosure requirements in relation to credit risk and market risk set out in BIPRU 11.5.4R(2)-(4), BIPRU 11.5.5-11.5.13R, and BIPRU 11.5.15R-11.5.16R may be excluded from the Pillar 3 Disclosures on the grounds that they are immaterial (in accordance with BIPRU 11.3.5R).

Additionally, the LLP is a BIPRU firm and is not subject to an operational risk requirement. The operational risk disclosures in BIPRU 11.5.4R(5) and BIPRU 11.5.14R are therefore not applicable. The LLP does not engage in securitization activity and the securitization disclosures in BIPRU 11.5.17R are not applicable. The LLP has therefore concluded that it is permitted to exclude those disclosures from the Pillar 3 Disclosures on the grounds that they are immaterial (in accordance with BIPRU 11.3.5R).