

# **Capital Requirements Directive Pillar III Disclosure Statement for Lambay Capital Limited**

## **Important Information**

This Capital Requirements Directive (“CRD”) Pillar III Disclosure Statement has been prepared by Lambay Capital Limited (“Lambay Capital”). It has not been audited or independently verified by a person external to Lambay Capital.

The risk management objectives, policies, strategies, approaches and limits described in this document constitute Lambay Capital’s judgement as of the date of this document and are subject to change without notice.

Unless otherwise stated, figures quoted in relation to capital or capital requirements in the CRD Pillar III Disclosure Statement have been taken from Lambay Capital’s 31<sup>st</sup> December 2010 “COREP ISPS Individual” return to the Financial Regulator which draws upon the audited financial statements of Lambay Capital for the years ending 31<sup>st</sup> December 2010.

Information in this document: (i) has been prepared solely for the purposes of complying with Regulation 37 of Statutory Instrument Number 660 of 2006 (European Communities (Capital Adequacy of Investment Firms) Regulations 2006) as amended; (ii) does not constitute any form of financial statement concerning the business of Lambay Capital; and (iii) does not constitute investment, accounting, credit, taxation, regulatory or legal advice.

If you intend entering into an investment management agreement with Lambay Capital you should consult suitably qualified and independent investment, taxation, accounting, legal and regulatory advisors to discuss your specific situation and investment objectives before proceeding. This document should not be viewed as identifying or suggesting all of the direct and indirect risks that may be associated with a decision to have part of an investor’s portfolio managed by Lambay Capital. Before making any decisions in relation to investments managed by Lambay Capital, readers of this document should as part of their due diligence process review, challenge and discuss its contents, assumptions and the nature of the models used to derive analyses herein with their advisors and not regard this document as a substitute for the exercise of reasoned judgement on their part or on the part of their advisors. The results, charts, graphs, figures and returns shown in this document are based on assumptions that may not be realised and should not be relied upon as predictions of the future events.

Despite the objective of the CRD to provide a common basis for Pillar III disclosures across investment firms and credit institutions, these disclosures may not be directly comparable with those of other investment firms for a number of reasons including but not limited to:.

Different elections available under the CRD and allowed by the various EU competent authorities;

The nature of Lambay Capital’s business compared with that of other investment firms;

Differences in the risk appetite of investment firms;

Different options open to investment firms under the CRD; and

The absence of any requirement for investment firms to disclose publicly their Pillar II capital requirements as such requirements may be critical to a valid comparison between investment firms.

## **General Description of Lambay Capital**

Lambay Capital Limited, ("Lambay Capital") is a limited liability company incorporated in Ireland under registered number 228346, in February 1995 originally as K.P. Investment Management, changed its name to Lambay Capital in September 2005. Lambay Capital received its authorization as an Investment Business Firm under the Investment Intermediaries Act 1995 from the Irish Financial Services Regulatory Authority ("IFSRA") in August 2005. Its business office is located at 1st Floor, 6 Exchange Place, IFSC, Dublin 1, Ireland; telephone +353 1 607 4071; facsimile +353 1 670 1849. ‘

The firm is a registered Commodity Trading Advisor with the Commodity Futures Trading Commission (CFTC) since 31st October 2005, and became a member of the National Futures Association (NFA) on the 3rd November 2005. The firm's NFA ID is 0359548.

Lambay Capital has been engaged as a proprietary trading firm for many years. It recently changed its business to managing and trading financial futures contracts, spot and forward contract on currencies in the interbank market and ‘exchange for physicals’ transactions on futures exchanges for clients only (Commodity Interests/Commodity Contracts). Keith Hazley formed the Company in 1995 and John Wallace joined the firm in 1998. Paul Garrigan joined the firm in January 2005. They are the directors of the company where, Mr Hazley is the Chief Operating Officer and Company Secretary and is responsible for the Investment Management Process. Mr. Garrigan is the Risk Manager and Marketing Officer and is also responsible for Compliance. Mr Wallace is a non-executive director. Mr Garrigan is an executive director of G Futures Limited his proprietary trading company.

### **Frequency of Disclosure**

The Pillar III Disclosure Statement is updated annually.

### **Location & Medium**

Lambay Capital posts its Pillar III Disclosure Statement on its website, [www.lambaycapital.com](http://www.lambaycapital.com), under the link “CRD Pillar III Disclosures

## **Lambay Capital Disclosures as at 31<sup>st</sup> December 2008**

### **Risks Faced by Lambay Capital**

In conducting its business activities Lambay Capital faces a number of risks the most significant of which are discussed below. For the purposes of the discussion, Lambay Capital has used the definitions of the various risks set out in the Committee of European Banking Supervisors CPO3 Revised Paper dated 25<sup>th</sup> January 2006.

#### **Business Risks**

Business risks consist of at least the following risks: credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk, and reputation risk.

#### **Credit Risk**

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with Lambay Capital or its failure to perform as agreed. This risk includes residual risk, the credit risk in securitisation and cross-border or transfer risk.

Lambay Capital does not trade for its own account and does not take on credit risk in return for an expected reward.

As residual risk, the risk that recognized risk measurement and mitigation techniques used by the credit institution prove less effective than expected, is a subcategory of credit risk and as Lambay Capital's business does not involve assuming credit risk for reward, it is not particularly relevant for Lambay Capital.

Concentration risk includes (i) large (connected) individual exposures and (ii) significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type. Concentration risk is also a part of credit risk. The firm has diversified its clients across legal jurisdictions and by business type to mitigate as far as reasonably practical against concentration risk in relation to its short-term debtors.

Securitisation risk can be regarded as yet another dimension of credit risk. As Lambay Capital is not involved in securitisation; securitisation risk is not relevant to the firm.

Settlement risk is made up of elements of credit risk and liquidity risk and is defined as the risk that a firm will deliver the sold asset or cash to the counterparty and will not receive the purchased asset or cash as expected. As Lambay Capital does not trade for its own account or undertake transactions exposing the firm to significant settlement risk. Settlement risk is not therefore directly relevant to Lambay Capital's operations.

The firm has the same exposure to credit risk as any other business which holds its share capital on deposit with credit institutions or which has short-term debtors. Lambay Capital has diversified the cash on deposit which represents its shareholders' capital and reserves across a number of different banks in the Irish market in order to reduce its exposure to any one bank. As at 31<sup>st</sup> December 2008, all of the banks used by Lambay Capital for depositing its shareholders' capital and reserves

(i) had either a short-term debt rating for bank deposits of P-1 from Moody's; or (ii) were a covered institution for which corporate deposits were guaranteed under the laws of Ireland by the Minister for Finance, for the period 30<sup>th</sup> September 2008 to 29 September 2010 and in the event of default of a covered institution in relation to a covered liability, the Minister for Finance will pay to the relevant creditor, on demand, an amount equal to the unpaid covered liabilities.

The firm chooses its clients carefully so that the probability of credit default in relation to management charges and performance fees is relatively low. One factor that may increase the size of the firm's debtors significantly is performance fees. From a risk management point of view, clients must generally have made gross trading profits which are a multiple of the size of any performance fees due to Lambay Capital. Thus there is a matching of revenues (trading profits) and the payment of performance fees for clients and this reduces the risk of default in relation to accrued performance fees that become payable.

### **Market Risk**

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange rates in the trading book. This risk can arise from market making, dealing, and position taking in bonds, securities, currencies, commodities, or derivatives (on bonds, securities, currencies, or commodities).

Lambay Capital is not authorised to trade for its own account; the firm has no trading book and does not engage in market making, dealing or position taking in bonds, securities, commodities or currencies or derivatives on bonds, securities, currencies or commodities for its own account.

Market risk includes foreign exchange risk, defined as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. From time to time, the firm holds some of its capital in foreign currency deposits, principally USD, for a short period of time pending translation to the firm's accounting currency (€) or to match anticipated expenditure in USD. As part of the firm's market risk management, the firm has a policy of converting USD deposits to EUR as soon as practicable after the USD balance exceeds expected future dollar denominated liabilities by more than a certain figure which Lambay Capital regards as proprietary. The firm's capital adequacy requirement is increased by a foreign currency requirement in line with the Capital Requirements Directive.

Market risk indirectly affects the firm's earnings in that an absence of return generating opportunities in the currency markets in which the firm operates or a failure of the firm's models to capture return within acceptable risk parameters in the currency markets will lead to a decline in the management fees and performance fees that the firm earns. This risk is managed by having a relatively diversified set of return-generating components in the firm's trading system and by managing the risk of client's portfolios.

### **Interest Rate Risk**

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates.

#### *Interest Rate Risk arising from Non-trading Activities*

The exposure that Lambay Capital's prospective earnings and capital has to interest rate risk is derived from the rate of interest that the firm earns on the cash representing shareholders' capital and reserves that the firm holds on deposit. On 31st December 2010, the firm invested its surplus cash in short-term deposits for terms of up to three months. The term for which the firm invests deposits may change without notice. Interest rate risk is reviewed annually as part of the firm's review of its Internal Capital Adequacy Assessment Process ("ICAAP").

The vast bulk of Lambay Capital's deposits are held in euro. Interest on US dollar denominated deposits is not material. A rise of 1% or a fall of 1% in EUR interest rates would change interest income before taxation by no more than EUR20,000 in a 12-month period. The impact of corporation tax and the tax on undistributed investment income of close companies significantly dampens the impact of changes in interest rates on after-tax earnings.

### **Liquidity Risk**

Liquidity risk is the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they come due.

The vast bulk of Lambay Capital's share capital is invested in short-term deposits with credit institutions which at 31<sup>st</sup> December 2010 (i) had either a short-term debt rating for bank deposits of P-1 from Moody's; or (ii) were a covered institution for which corporate deposits were guaranteed under the laws of Ireland by the Minister for Finance, for the period 30 September 2008 to 29 September 2010 and in the event of default of a covered institution in relation to a covered liability, the Minister for Finance will pay to the relevant creditor, on demand, an amount equal to the unpaid covered liabilities. All such deposits can be accessed on terms that vary from one day's notice to three month's notice. The level of liquidity of Lambay Capital's deposits may be changed by the firm without notice.

Settlement risk is made up of elements of credit risk and liquidity risk and is defined as the risk that a firm will deliver the sold asset or cash to the counterparty and will not receive the purchased asset or cash as expected. As Lambay Capital does not trade for its own account or undertake transactions exposing the firm to settlement risk, settlement risk is not directly relevant to Lambay Capital's operations.

### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes IT, legal and compliance risk. The firm deals exclusively with institutional clients. All clients conduct a due diligence exercise on Lambay Capital prior to entering into an investment management agreement with Lambay Capital. This ensures that the firm's operational procedures are subject to frequent and reasonably thorough review.

The firm conducts and documents a review of certain major aspects of its business each December using a self-examination checklist specially designed for firms providing portfolio management services.

Lambay Capital's management of operational risk consists of hiring highly competent staff, training employees well, developing and operating robust procedures for the performance of all important tasks and having in place a robust and tested business continuity plan.

Lambay Capital starts its management of operational risk by using Recruitment Procedures designed to hire good quality staff that meet the fit and proper requirements and Staff Training to train those staff in the wider regulatory and operational context in which the firm operates. The firm's Recruitment Procedures and Staff Training Procedures are set out in the firm's Compliance and Procedures Manual which does not form part of this disclosure. Operational risks arising from sales and marketing activities are mitigated using appropriate procedures in this area of operation. The following sections of the firm's Compliance and Procedures Manual attempt to mitigate operational risk in the sales and marketing areas:

Procedure for the Classification of Clients under S.I. No. 60 of 2007 (as amended)  
Account Opening Procedures  
Prevention of Money Laundering & Terrorist Financing  
Procedures in Relation to Lambay Capital's Disclosure Document  
Procedures for Review & Approval of Promotional Material  
Procedures for the Supervision of Email.  
Procedures for Supervision of Lambay Capital's Web Site  
Complaints Procedure

Operational risks arising from portfolio management for clients are mitigated using appropriate procedures such as:

Best Execution Policy  
Conflicts of Interest – Identification & Management  
Trading Procedures  
Client Currency Fund Risk Management  
Procedures for Bunched Orders & Split or Partial Fills  
Market Abuse (Directive 2003/6/EC) Regulations 2005  
Employee Code of Conduct

Other operational risks arising in the firm are mitigated using procedures appropriate for the risk in question. The following sections of the firm's Compliance and Procedures Manual attempt to mitigate operational risk in other areas:

Contents of Compliance Report to the Board of Lambay Capital  
Controls Governing Cheque and Other Payment Instructions  
Risk Management for Lambay Capital  
Recruitment Procedures  
Arrangements Aimed at Preventing Employees from Doing Certain Activities  
Staff Training  
Privacy Policy  
Ethics Training Policy

### **IT Risk**

IT risk is a subcategory of operational risk and is defined as the current or prospective risk to earnings and capital arising from inadequate information technology and processing in terms of manageability, exclusivity, integrity, controllability and continuity, or arising from an inadequate IT strategy and policy or from inadequate use of the institution's information technology.

Lambay Capital employs experienced IT staff with university degrees in IT, has reasonable security in place and tests IT programs and applications prior to implementing them within the business. Lambay Capital's has a business recovery plan and a stand-by 'hot site' in another part of Dublin to mitigate against IT risks involving damage to physical IT equipment and loss of essential services such as telephone or internet at 1<sup>st</sup> Floor, 6 Exchange Place, IFSC, Dublin 1.

### **Legal & Compliance Risks**

Legal and compliance risk is a subcategory of operational risk and is defined as the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards.

The firm has a policy of reading the original legislation or compliance rule rather than depending on commentaries or books on such matters. Legal advice is sought where there are issues of interpretation. Compliance policies are designed from the original legislation using information technology systems and an understanding of the practicalities of implementation by human beings.

### **Strategic Risk**

Strategic risk is defined as the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The main strategic risks that Lambay Capital faces are: (i) an absence of return generating opportunities in the currency markets in which the firm operates; and (ii) failure of the firm's models to capture returns within acceptable risk parameters in the currency markets in which the firm operates.

## **Reputation Risk**

Reputation risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators.

Lambay Capital is in the business of providing fund management services to its customers. It is very important that the firm's reputation is based on integrity, compliance with laws and regulations, fair dealing and professionalism. Losses arising from the other risks faced by Lambay Capital may be repaired by a variety of means including good investment performance, higher pricing and tax relief on losses. By contrast, a lost reputation is extremely difficult and often impossible to regain.

The way that each employee acts and represents Lambay Capital to the firm's stakeholders can be a critical success factor. The firm has identified a number of specific risks areas which have the potential to damage the firm's reputation. These risks and the associated risk mitigation techniques designed to reduce the risks identified are deemed to be proprietary to Lambay Capital.

Lambay Capital has developed a Compliance and Procedures Manual to mitigate many of the risks that the firm faces and sufficient to ensure compliance of the firm and the persons who are the firm's managers and employees with the firm's obligations under the European Communities (Market in Financial Instruments) Regulations 2007 (as amended) and the European Communities (Capital Adequacy of Investment Firms) Regulations 2006.

The board of Lambay Capital is responsible for risk management at Lambay Capital. The board has delegated the day-to-day risk management functions through the firm's Compliance and Procedures Manual to the executive directors and the Compliance Officer. The board of Lambay Capital determines the level or risk that is acceptable to the firm.

## **Internal Reports**

Internal reports, such as the compliance report, the sales and marketing report, the annual self-examination check list, the review of execution policy & order execution arrangements, management accounts, the quarterly review of bunched orders and performance reports are used by staff to carry out their responsibilities in accordance with the Compliance & Procedures Manual. Certain internal reports are also used by the board as part of its supervision and management function.

## **External Audit**

Lambay Capital is audited by Brophy & Gillespie. The firm's accounting year end is the last day of December in each calendar year; the firm's annual report and audited financial statements for each complete accounting period up to and including 31<sup>st</sup> December 2010 have not been qualified.

## **Internal Capital Adequacy Assessment Process ("ICAAP")**

The board of Lambay Capital sets the scope, methodology and objectives of Lambay Capital's ICAAP. The firm's ICAAP is prepared by the executive management team, challenged by the board, revised following the board's challenge and finally approved by the board. The key risks identified in the firm's ICAAP are reviewed by the board at its main meetings throughout each year.

## **ICAAP Objectives**

The objectives of the ICAAP are:

1. To enhance the links within Lambay Capital between the firm's risk profile, its risk management and risk mitigation systems and its capital requirements;
2. To ensure that Lambay Capital identifies, measures, aggregates and monitors its risks;
3. To ensure that Lambay Capital has sufficient capital to support the potentially significant risks to which its business is exposed;
4. To ensure that Lambay Capital uses sound risk management systems and continues to develop such systems; and
5. To ensure that Lambay Capital complies with the 'own funds' requirements of the CRD.

## **ICAAP Scope**

The ICAAP covers the business operations of Lambay Capital Limited. The firm has no subsidiaries or affiliates. The document is designed to provide a template for the effective risk management of Lambay Capital.

## **Methodology Underpinning ICAAP**

The methodology underpinning the firm's ICAAP is to identify the potentially significant risks faced by the firm. For each potentially significant risk identified, the firm seeks to estimate the likelihood of that risk occurring and the consequences of that risk occurring based on the current risk management infrastructure of the firm. The firm then seeks to find an appropriate means of mitigating each such risk and to document its plans for mitigating that risk within the contexts of its capital and management resources.

### **Process for Identifying Risks**

Staff identified the potentially significant types and sources of risks in the business. The firm examined the factors that would activate those risks, the consequences of those risks if they occurred and the likelihood of occurrence of those risks. An assessment was also made of the manner in which the risks are related.

The resulting risks which were not fully mitigated by the existing risk management infrastructure of the firm were listed in the risk register which forms part of the firm's ICAAP.

### **Process for Measuring Risks**

Risks are measured by examining the likelihood of the risk occurring per unit of time and the potential consequence in terms of its impact on profits. A score can be calculated for each risk combining the likelihood and consequence, using risk assessment tables.

### **Procedures Underpinning ICAAP**

Lambay Capital's ICAAP is underpinned by the firm's Compliance & Procedures Manual, the firm's Business Recovery Plan and the firm's documented annual risk review which is in the format of a specially-tailored, self-examination checklist.

### **Adequacy of Risk Mitigation**

The risk mitigation techniques outlined in the ICAAP are designed to be practical, within the skill set of management and in most cases have a high likelihood of being achievable at reasonable cost. There is however no guarantee that risk mitigation techniques will be effective.

### **Assumptions Underpinning ICAAP**

Capital is not a long-run substitute with which to remedy a weakness in systems and controls; the underlying weakness must be addressed via risk management or risk mitigation techniques. Risks are aggregated simply by summing them without any allowance for the lack of correlation between the risks..

### **Risk Assessment**

#### **Risk Mitigation**

Lambay Capital believes that there are four main ways in which downside risk can be managed. Risks can be:

1. Reduced or eliminated;
2. Transferred (e.g. to an insurance company);
3. Avoided; or
4. Absorbed or pooled.

#### **Reducing or Eliminating Risks**

Reducing or eliminating risk is always the first port of call in risk management. The firm's work in this area focuses on reducing one or both of: (i) the probability of occurrence; and (ii) the adverse consequences if the event occurs. Much of Lambay Capital's operational risk has been mitigated by reducing the probability of occurrence or the adverse consequences if the event occurs. For example, Lambay Capital has trained its staff in the operating procedures for all of the main functions of the firm thus reducing the probability of occurrence of certain kinds of operational risk. By contrast, Lambay Capital has little control over the probability of the failure of telephone lines, data vendors, means of data transfer, loss of electricity, flooding and other such events disabling its operations at 1<sup>st</sup> Floor, 6 Exchange Place, IFSC, Dublin1. However, the consequences of such an event have been diminished to acceptable standards by means of a business continuity and disaster recovery plan and the use of a stand-by hot site in a geographically different part of Dublin.

#### **Transferring Risks**

As a general principle of effective risk management, risks should be borne by the parties that are able to manage and mitigate those risks. For example, Lambay Capital has transferred the risk of loss of business assets due to fire

or theft and loss of profits due to business interruption to an insurance company as such an entity is best able to manage such risks through pooling them across many different types of businesses.

### **Avoiding Risks**

The most obvious way to avoid a risk is not to engage in the activity in a way that involves that risk. Lambay Capital has avoided some counterparty credit and some market risk by not engaging in trading for its own account. In addition, Lambay Capital does not use loan capital to fund its operation as profits from an investment manager focused on a single asset class exhibit significant volatility which might lead to a breach of a loan covenant. This is another example of a risk that has been avoided.

### **Absorbing and Pooling Risks**

Where risks cannot economically be eliminated, transferred or avoided they must be absorbed and pooled. Lambay Capital is currently an investment manager focused on a single asset class – currencies. As there is no ‘all-weather’ asset class, each individual asset class goes through periods of under and out performance relative to other asset classes. There will thus always be periods of time when a single asset class is performing poorly relative to other asset classes. Such periods of under performance for a single asset class may give rise to a reduction in or elimination of performance fees as a source of revenue and a fall in assets under management. All of these events lead to a reduction in earnings. The size of the reduction is largely a function of the risk level at which the manager’s investment program operates and the extent to which investors understand the nature of their investment and its role in their portfolio.

Among the more effective ways to eliminate the risk to revenues from managing a single asset class is to operate a diversified set of trading strategies within that asset class. It is part of Lambay Capital’s strategy to increase the trading strategies to reduce the risks to revenue of underperformance compared with operating just one investment strategy within the asset class.

### **Reducing Uncertainty**

The discussion of the mitigation options has so far assumed that all risks are known and can be quantified reasonably accurately. In practice, however, this is often far from being the case. Usually there is a degree of uncertainty about which risks might occur that could significantly affect the firm.

Lambay Capital has had considerable internal discussions with its staff to try to identify as many of the risks facing the business as possible. In addition, the firm has reviewed stockbrokers’ reports on asset management companies to identify external risk and strategic risks facing the firm.

### **No Guarantee that All Risks have been Identified**

Despite all the firm’s efforts at risk management, there may still be risks which the firm faces but which it has not identified and which might have a significant impact on the firm’s earnings and capital.

### **Summary information on the terms & conditions of the main features of all own funds items & components thereof as at 31<sup>st</sup> December 2010.**

Paid up capital Ordinary share capital	EUR 178,113
Share premium Share premium on issue of ordinary shares	EUR 1,861
Capital Contribution	EUR 140,000
Reserves Audited revenue reserves	EUR (194,011)

Source: Lambay Capital annual report & audited financial statements for the years ending 31<sup>st</sup> December 2010 .

There are no goodwill or intangible asset items.

### **The amount of original own funds, with separate disclosure of all positive items and deductions as at 31<sup>st</sup> December 2010**

Paid up capital:	EUR 178,113
Share premium:	EUR 1,861
Capital Contribution:	EUR 140,000
Reserves:	EUR (194,011)

ORIGINAL OWN FUNDS AS AT 31<sup>st</sup> December 2010: EUR 207,979

### **Calculation of ‘ICAAP Number’**

For each potentially significant risk identified by Lambay Capital, the firm has in place a note of the factors that activate the risk, the consequences of the risk being activated, the risk management actions, the persons responsible

for the management of that potentially significant risk, the current status of the risk and both the current and target risk scores. The ICAAP number is derived by mapping the frequency and consequences to probability and financial amounts respectively and aggregating across all such risks ignoring any reductions in risk due to lack of correlation between the risks.

**Standardised approach exposure classes excluding securitization positions**

Risk-weighted exposure amounts as at 31<sup>st</sup> December 2010

Institutions: EUR 7.000