



Pillar 3 Disclosure

Park Square Capital

June 2021

1. Introduction

The Capital Requirements Directive IV (“CRD IV”) is EU legislation setting a regulatory framework governing the amount and nature of capital required to be retained by credit institutions and investment firms in Europe.

CRD IV comprises of the:

- Capital Requirements Directive (2013/36/EU) (“CRD”) which is implemented through national law in EU member states; and
- Capital Requirements Regulation (575/2013) (“CRR”), which is directly binding on regulated EU Firms (as applicable).

The UK Financial Conduct Authority (“FCA”) transposed the CRD rules in its regulations through the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”). Regulated firms are required to be aware of any other directly binding obligations prescribed in CRR which are not detailed in GENPRU or BIPRU rules.

In accordance with the CRD IV, the FCA’s framework sets of the following three Pillars:

- **Pillar 1:** requires the firm to maintain the minimum capital amount for credit, market and operational risk;
- **Pillar 2:** requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet Pillar 1 requirements in context of the actual or potential risks faced by Park Square in connection to its business activities. This assessment is documented process known as the Internal Capital Adequacy Assessment Process (“ICAAP”); and
- **Pillar 3:** requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

2. Scope and application of the FCA’s requirements

Park Square Capital, LLP (the “Firm”, “Park Square”) is a MiFID investment firm, authorised and regulated by the FCA, issued with a BIPRU 50K limited licence. The Firm is not a member of a group and, is not required to prepare consolidated reporting for prudential purposes.

Park Square is required to make available publicly a Pillar 3 Disclosure in connection to its regulatory capital, risk exposure, risk assessment processes and staff remuneration arrangements in accordance with the applicable GENPRU and BIPRU rules.

The Pillar 3 Disclosure is published annually on Park Square’s website, as soon as practical, following the audit of its year-end financial statements. On this note, the accounting reference

date of the Firm is 31 December and all figures shown in the Pillar 3 Disclosure are as at the financial year-end date.

2.1 Materiality and Omissions

Park Square is permitted to omit disclosures deemed as:

- **Immaterial:** such that its omission is unlikely to influence the decision of the reader;
- **Proprietary:** such that if this was shared it would undermine Park Square's competitive position; and
- **Confidential:** where there are binding obligations between Park Square and its staff, customers, clients, suppliers or counterparties.

Park Square has made no omissions on any of the grounds mentioned above for the purposes of the Pillar 3 Disclosure for the year ended 31 December 2020.

2.2 Verification

The information contained in the Pillar 3 Disclosure is not required to be independently verified. It does not constitute any form of financial statement and must not be solely relied upon in making any judgement on the Firm.

3. Risk Management Objectives and Policies

Park Square's management body, the Executive Committee ("ExCo"), is responsible for governing its risk management process, objectives and policies, including:

- setting Park Square's risk appetite in light of its business activities;
- allocating sufficient resource to manage risks;
- establishing a framework to manage risks faced by Park Square; and
- monitoring the risk management process and reviewing the adequacy of the implemented risk control measures.

The ExCo has established an internal Risk Committee which is responsible for reviewing the ICAAP, designing and implementing the internal control measures to mitigate the likelihood of these risk from occurring.

The risks that are considered in the Firm's risk management process include:

- **credit:** the risk Park Square's advisory or investment management fees cannot be collected from its client(s); and/or the risk that the banks in which Park Square holds such deposits, fail. Park Square applies the standardised approach to the calculation of the credit risk capital component of the CRR, being 8% of the total risk weighted exposures. A summary of the credit risk calculation is provided in Appendix A.
- **market:** Park Square does not hold a trading book on its balance sheet; therefore, the only market risk which may arise from management fees receivable in Park Square's currencies other than its functional currency, GBP. Park Square applies the standardised approach to the calculation of the market risk capital component of the CRR, being 8% of the total risk weighted exposures. A summary of the market risk calculation is provided in Appendix A.
- **business strategy:** the risk that the business plan does not address all strategic risks, is not approved at the appropriate level, and does not allow Park Square's plans to be carried out so that its objectives can be achieved.
- **capital adequacy:** the risks arising from Park Square's capital position, the adequacy of capital to support the level of current and anticipated business activities, and the access to further capital.
- **regulatory compliance:** risks arising from a regulatory breach resulting in the FCA to withdraw or alter Park Square permissions, impose an economic fine or issue a public investigation announcement.
- **financial crime:** risk arising from a fraud or theft either by malicious attempts from internal or external stakeholders.
- **human resources:** the risk that Park Square fails to recruit or retain competent staff which detracts its business plans being carried out and its objectives achieved.
- **legal:** the risk that agreements and contracts are not developed, maintained or followed which reduces the Firm's ability to protect its business activities or its clients.
- **IT infrastructure and systems (inc. Cybersecurity):** the risk that IT systems fail to support Park Square's business and operational activities. This also encompasses any automated IT systems and processes failing to provide required management and accounting information.
- **business continuity:** the risk that the Firm is unable to continue performing its business activities and therefore, meet its obligations to its client and/or counterparties due to a significant adverse event.
- **operational:** the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
- **environmental:** the risk that Park Square may be negatively impacted by extraneous events or factors that are not under its control, and the effects of which cannot be easily

mitigated.

The above risks are discussed at the weekly ExCo meetings, as necessary.

Following the annual ICAAP review for the year-ended 31 December 2020, the key risks identified by were the following types of risks:

- business;
- credit; and
- cybersecurity.

The internal control measures implemented by Park Square in order to mitigate the key identified risks is detailed in the ICAAP.

4. Regulatory Capital

This section details the Pillar 3 public disclosures in connection with Park Square’s regulatory capital resource requirements.

Park Square is a limited liability partnership and its capital arrangements are established in its formation documents available at UK’s company register, Companies House. The total capital resources of Park Square include members’ capital totaling £10,218,161 for the year ended 31 December 2020.

The Firm’s capital resource available for regulatory purposes is tabled below.

Capital resource requirements	2020 (£)
Tier 1	10,218,161
Tier 2	0
Tier 3	0
Deductions form total capital e.g. illiquid assets	0
Total	10,218,161

4.1. Capital Resources Requirement (Own Funds Requirement)

The Firm’s Pillar 3 requirements is calculated as the high of (1) and (2):

1. The minimum capital resource requirement (“Base Capital”) for an BIPRU 50K limited licence; and the sum of:
 - a. the credit risk capital requirement; and
 - b. the market risk capital requirement.
2. The Fixed Overheads Requirement (“FOR”). The FOR is calculated by taking 25% of the Firm’s operating expenses less certain variable costs (i.e. fixed overheads). FOR is

calculated based on the Firm's previous year's audited expenditure. The Firm has adopted the standardized approach to market risk and the above figures have been produced on that basis. The Firm is not subject to an operational risk requirement.

4.2. Regulatory Capital Position

Park Square's regulatory position as at 31 December 2020 was as follows:

	Regulatory Capital Position		(£)
	Regulatory Capital Available		10,218,161
	<u>Pillar 1 Requirement – higher of A or B</u>		
A	FOR	4,670,277	4,670,277
	Base capital	44,687	
	Credit Risk	1,133,750	
	Market Risk	533,717	
B	Total	1,712,148	
	Surplus Own Funds		5,547,884

The calculated amount for the Firm's FOR is greater than the total of its Base Capital, credit and market risk capital requirements for the year ended 31 December 2020

5. Remuneration policy

In accordance with the FCA SYSC 19A rules, Park Square's applies the Remuneration code rules applicable to a "Proportionality level 3" firm.

Park Square's internal remuneration committee and Human Resource Manager is responsible for the remuneration policy which is available on its website here:

<https://parksquarecapital.com/admin/resources/remuneration-policy-2021-final.pdf>.

Appendix A - Credit and market risk calculations

A.1 - Credit risk summary

The Firm has adopted the standardised approach to the calculation of the credit risk capital component of the CRR, being 8% of the total risk weighted exposures at 31 December 2020/ and has been calculated to be £1,113,750.

Article 112	8% of risk weighted exposure amount (£)
Central governments or central banks	
Regional governments or local authorities	
Public sector entities	
Multilateral Development Banks	
International Organisations	
Institutions	681,893
Corporates	11,007,895
Retail	
Secured by mortgages on immovable property	
Exposures in default	
Items associated with particular high risk	
Covered bonds	
Claims on institutions and corporates with a short-term credit assessment	
Collective investments undertakings (CIU)	
Equity	
Other items	497,419
Total	1,133,750

A.2 Market risk summary

Park Square's market risk exposure is calculated as follows:

a) Exposure to Market Risk Article 92(3)(b). requirements for non-trading book business. This disclosure is not required as Park Square does not have a trading book.

b) Exposure to Market Risk Article 92(3)(c). Please see as follows:

Market risk exposure	Risk weighting	Risk weighted exposure (£)
Foreign currency assets and liabilities	8%	533,717
Settlement risk	8%	-
Commodities risk	8%	-