



## Capital Requirements Directive Pillar 3 disclosure

**The Firm:** BDT Invest LLP  
**Registration:** 472435  
**Date:** 15<sup>th</sup> June 2011

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### Background

The Capital Requirements Directive ('the Directive') of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. In the United Kingdom, this is being implemented by our regulator, the Financial Services Authority ('FSA') who has created new rules and guidance specifically through the creation of the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The new FSA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital requirements that we need to retain to meet our credit, market and operational risk;
- Pillar 2 requires us, and the FSA, to take a view on whether we need to hold additional capital against firm-specific risks not covered by Pillar 1; and
- Pillar 3 requires us to develop a set of disclosures which will allow market participants to assess key information about our underlying risks, risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure document. The disclosure of this document meets our obligation with respect to Pillar 3.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Where we have considered a disclosure to be immaterial, we have stated this in the document. In addition, we may also omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position.

Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. Where we have

omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this.

## **Capital Requirements Directive Pillar 3 disclosure**

### **Scope and application of the requirements**

BDT Invest LLP ("BDT") is authorised and regulated by the FSA and has permission to provide discretionary investment management and investment advisory services on behalf of professional clients and eligible counterparties.

### **Risk management**

BDT's Management Committee determines the company's business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. They also determine how those risks may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Management Committee meet on a regular basis and discuss current projections for profitability and regulatory capital management, business planning and risk management. The Management Committee manage BDT's risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FSA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

BDT is small with an operational infrastructure appropriate to its size. It carries no market risk, other than foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable. BDT follows the standardised approach to market risk and the simplified standard approach to credit risk. BDT is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge.

The main features of BDT's capital resources for regulatory purposes are as follows [31<sup>st</sup> March 2011]:

### **Capital item £'000**

- |   |       |
|---|-------|
| • Tier 1 capital less innovative tier 1 capital:      | 3,313 |
| • Total tier 2, innovative tier 1 and tier 3 capital: | 0     |
| • Deductions from tier 1 and tier 2 capital:          | 1,464 |
| • Total capital resources, net of deductions:         | 1,849 |
| • Surplus Capital:                                    | 1,214 |

## **Capital Requirements Directive Pillar 3 disclosure**

BDT is a limited licence firm and as such its capital requirements are the greater of:

- Base capital requirement of €50,000; or

- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement.

It is BDT's experience that the Fixed Overhead Requirement establishes its capital requirements and hence market and credit risks are considered not to be material. BDT has not omitted any disclosures on the grounds of confidentiality.

Pillar 2 requires BDT, and the FSA, to take a view on whether BDT needs to hold additional capital against firm-specific risks not covered by Pillar 1. In the opinion of BDT's Management Committee there is no need to hold additional capital over and above that calculated and held under Pillar 1.

However, as disclosed in BDT's ICAAP, the Management Committee is aware that FOR is a good indication of the minimum capital required to be held for FSA reporting purposes. However, section 4.2 of the Guidance Note for Promoters of CIS from the Irish Financial Regulator requires a promoter, such as BDT, to hold minimum shareholders' funds of €635,000. This currently amounts to approx. £555,000 (31<sup>st</sup> March 2011). Taking a conservative view on the GBP/EUR exchange rate the Management Committee will therefore be mindful of actual capital exceeding £635k.

## **Remuneration of Members**

### Decision Making Process for Determining Remuneration

Financial and non-financial criteria are taken into account when assessing individual performance and deciding upon remuneration. This is done formally through the semi-annual Performance Review and Development Process. For example the following matters are considered:

- Adherence to effective risk management (careful consideration and due diligence on the quality of the intermediaries and their investors' objectives)
- Understanding of and compliance with the regulatory system
- Behaviours consistent with BDT Invest's values
- Fit and professional relationships with other BDT members

In making remuneration decisions the Management Committee also considers a range of information including:

- Market remuneration surveys
- Performance appraisals
- Achievement of KPIs
- Performance (fees) of the funds
- Individual employment contract
- Overall results of the firm

Ultimately BDT Invest's Management Committee takes a common sense approach in the final decision about the performance-related components of variable remuneration. It is unlikely for example that variable remuneration will be awarded in a situation where BDT Invest has made a loss, unless it can clearly be shown that this was justified (for example to incentivise new employees involved in a new business venture which could be loss-making in its early stages).

### Link between Performance and Remuneration

The members of BDT performing a Controlled Function are entitled to a fixed entitlement which is paid monthly and is included as an expense in the profit and loss account of BDT after arriving at "profit for the financial year before members' remuneration and profit shares".

Discretionary amounts due to members in respect of their participation of rights in the profits of the LLP for the financial year are classified as equity until allocation is approved by the members. The allocation to the members of the residual profits for a financial year occurs following the finalisation of the accounts for that period. A members' share in the profit and loss for the year is accounted for as an allocation of profits.

BDT Invest ensures that any measurement of performance used to calculate variable remuneration (i.e. performance bonuses) includes adjustments for all types of current and future risks and considers the cost and quantity of the capital and liquidity required. Any bonus pool calculation takes into account the capital and liquidity requirements of BDT to ensure that any bonuses paid do not jeopardise BDT's ability to meet FSA capital requirements. It is recognised that profits are a better measure of performance when compared to revenues or turnover. For this reason BDT's Management Committee ensures that its Bonus arrangements in employee contracts are either linked to BDT's profits or are directly attributable to the management fee earning potential of investments into BDT funds. This means the risk of capital shortage or illiquidity is prevented.

### Remuneration of Senior Members

This information is confidential to the members of BDT so the information provided below is that which is available in the statutory accounts of BDT Invest LLP for the year ended 31<sup>st</sup> March 2011.

	2011	2010
Members' remuneration charged as an expense, including employment and retirement benefit costs	267,088	208,915

The amount of profit allocation to the member with the largest entitlement is calculated by reference to profit sharing ratios in existence at the year end.

On behalf of BDT's Management Committee  
Dated 15<sup>th</sup> June 2011