

Pillar 3 minimum disclosure requirements

The Capital Requirements Directive (“the Directive”) of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority (‘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 rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

We are permitted to omit required disclosures if we believe that the information is immaterial. Information is material if its omission would be likely to change or influence the decision of a reader relying on that information.

In addition, we may omit 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.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

Arrowgrass Capital Partners LLP (“the Firm”) is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as an alternative investment fund manager (AIFM) with MiFID top up permissions that is prudentially categorised as a collective portfolio management investment (“CPMI”) firm for the purposes of the FCA rules and, in relation to its MiFID top-up activities, also prudentially categorised as a BIPRU firm.

The Firm is an independent hedge fund manager based in the UK. The Firm, along with Arrowgrass Capital Partners (US) LP, currently manages four separate funds.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes

Risk Management

The Firm has an Executive Committee that is responsible for the direction and strategy of the firm together with assessing the general well-being of the firm. The Executive Committee is made up of partners and generally meets monthly but quarterly at a minimum.

The Executive Committee oversees current projections for profitability, cash flow, regulatory capital management and business planning and risk management. The Executive Committee manages the firm's risks through a framework of policy 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. These policies and procedures are updated as required, but are reviewed at least annually.

The Executive Committee has identified the material risks of Arrowgrass as the following:

1. Loss of key staff;
2. Loss of systems;
3. Poor investment performance/ failure to raise assets under management/fund closure; and
4. Damage to reputation.

In addition to these material risks, the Executive Committee has considered the following risks:

- Market risk – This risk relates to exposure to movements in foreign exchange on its assets receivable and liabilities payable in foreign currencies.
- Credit risk – This risk relates to exposure to the funds under its management for non-payment of management and performance fees and other counterparty exposures relating to assets on its balance sheet.
- Operational risk – This risk relates to a range of operational exposures such as trading or fund valuation errors and failure of systems or service providers.
- Business risk – This risk relates to potential loss of earnings and impact on the firm's ability to meet its obligations as a consequence of events including those falling into any of the above risk categories.

Annually the Executive Committee formally reviews the risks, controls and other risk mitigation arrangements and assesses their effectiveness. Where material risks are identified, it considers the financial impact of these risks as part of the Firm's business planning and capital management and determines whether the amount of regulatory capital is adequate.

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed.

The main features of the Firm's capital resources for regulatory purposes are as follows:

Capital item – 31st March 2019	£
Tier 1 capital less innovative tier 1 capital	6,331,668
Total tier 2, innovative tier 1 and tier 3 capital	0
Deductions from tier 1 and tier 2 capital	0
Total capital resources, net of deductions	6,331,668



The Firm had 9 partners and 86 employees as at 31st December 2017, and therefore it remains a small firm and has retained a simple operational infrastructure. The Firm continues to adhere to its policy of hiring highly talented and experienced investment professionals who have a good understanding of markets and operational obligations.

The Firm's market risk is primarily driven by foreign exchange risk on its accounts receivable in foreign currency and credit risk from management and performance fees receivable from the funds under its management. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement and is not required to include an operational risk capital charge in its pillar I capital requirements although it considers this as part of its process to identify the level of risk based capital required.

As discussed above the Firm is a limited licence firm and as such its Pillar I capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement.

The Firm's Pillar I capital requirement for 2018 is £4,424,054m, representing the fixed overhead requirement, being the greater of the above amounts.

Additionally, as part of its annual Individual Capital Adequacy Assessment Process ("ICAAP"), the firm carries out an assessment of the specific risks of the firm (as identified above) and the controls in place to mitigate those risks. This assessment is used to calculate any additional capital required in excess of the firm's Pillar I requirements.

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

Remuneration Policy and Practices

The Firm's senior management team is responsible for determining the contents and application of the Remuneration Policy (the Policy). The Policy is reviewed annually to ensure that it continues to adhere to its objective of dis-incentivising inappropriate risk taking and enables a clear alignment of interests to be maintained between investors in client funds and stakeholders in the firm. Other control functions, such as Risk, Compliance and HR, contribute to this review. Remuneration is linked to both financial and non-financial performance and bonuses over a certain threshold are subject to a three year deferral scheme which in turn is equity linked to the management share class of the Arrowgrass Master Fund.

The aggregate remuneration from the Firm of staff identified as Code Staff for the performance period ended 31st December 2018 is £11,997,111m which includes full amounts for any time individuals were Code Staff during the period. The Firm considers it has a single business area (investment management) which benefits from a range of support and ancillary functions.

Arrowgrass Capital Partners LLP ("**Arrowgrass**") is regulated by the United Kingdom Financial Conduct Authority ("FCA"). Arrowgrass is subject to the FCA Rules and is permitted to deal with professional clients and eligible counterparties only. BIPRU 11.3.1R requires a firm to publicly disclose the information contained in the Pillar 3 Disclosure Document. This Information contained in this Disclosure Document is made pursuant to this rule. The Information contained herein is not intended as an offer or solicitation with respect to the purchase or sale of any security. The Information in this document is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. In particular this document is not intended for distribution in the United States or for the account of U.S. persons (as defined in Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act")) except to persons who are "qualified purchasers" (as defined in the United States Investment Company Act of 1940, as



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