

# **Rokos Capital Management LLP**

## Capital Requirements Directive Pillar 3 Disclosures

## Rokos Capital Management LLP

### Capital Requirements Directive Pillar 3 Disclosures

#### Introduction

##### Firm Background

Rokos Capital Management LLP (“RCM” or the “Firm”) is an English Limited Liability Partnership which operates in London. The Firm is authorised and regulated by the Financial Conduct Authority (“FCA”) as an Alternative Investment Fund Manager (“AIFM”) and is categorised by the FCA, for capital purposes, as a collective portfolio management investment (“CPMI”) firm.

RCM’s primary activity is to act as an AIFM in respect of the Rokos Global Macro Master Fund (the “Fund”). RCM manages the Fund’s portfolio on a discretionary basis pursuant to the investment objectives described in the Fund’s offering memorandum and any contractual restrictions set out in its investment management agreement with the Fund. The Firm does not manage any funds on behalf of retail clients, has no trading book exposures and does not have regulatory permissions to manage or hold client money or assets.

##### Regulatory Context

The Capital Requirements Directive (“CRD”) is a European Union (“EU”) regulatory framework which governs the amount and nature of capital that credit institutions and investment firms must maintain. RCM is categorised by the FCA as a BIPRU Firm subject to the CRD III framework. As such, the Firm adheres to the FCA’s General Prudential Sourcebook (“GENPRU”) and Prudential Sourcebooks for Banks, Building Societies and Investment Firms (“BIPRU”).

The CRD framework is structured around three pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risks;
- Pillar 2 deals with the Internal Capital Adequacy Assessment Process (“ICAAP”) and requires RCM to express a view as to whether additional capital should be held for risks not covered by Pillar 1;
- Pillar 3 requires the Firm to publish its objectives and policies in relation to risk management, and information on its risk exposures and capital position.

The disclosures below are the required Pillar 3 disclosures and apply solely to RCM. The disclosures do not apply to the Fund, which is exposed to different risks. The disclosures reflect the financials of the Firm as at 31 March 2020 unless otherwise stated.

#### Pillar 3 Disclosures

This Pillar 3 disclosures document has been prepared by RCM in accordance with the requirements of BIPRU 11 and has been approved by the Firm’s Partnership Board. The disclosure is based on RCM’s financial position at 31 March 2020 in line with its financial year-end. Pillar 3 disclosures will be made available annually on the Firm’s website as soon as practicable following the publication of its Annual Financial Statements.

## Risk Management Objectives and Policies

RCM is an investment management firm whose sole business is providing investment advisory services to its clients. The firm does not engage in proprietary trading. It takes market, credit and liquidity risks as part of its investment management activities on behalf of clients rather than for the purpose of earning separate returns for RCM from such risk taking activities. As stated above, the firm does not hold client money.

## Governance Framework

RCM operates a Partnership Board which oversees the Firm's governance framework. The Partnership Board is responsible for determining the strategic direction and risk appetite of the Firm and has ultimate oversight of the firm's business and activities. In addition, the Partnership Board reviews financial and business performance, senior hiring decisions, review of the controls framework across departments and considers material issues escalated from other governance forums.

The Partnership Board has established a sub-committee structure to assist it in discharging its management and oversight responsibilities. In particular, the Partnership Board has delegated general oversight of certain areas of the business to amongst others the Business Management Committee, the Operational Risk Committee, the Risk Committee, the Valuation Committee, the Technology Committee and the Remuneration Committee.

- Business Management Committee – responsible for regular oversight of the non-investment functions of the firm, management of key organizational operational risks, and implementation of the strategy set by the Partnership Board.
- Risk Committee – responsible for identifying, measuring, analyzing, monitoring, controlling and reporting the market risks and performance of the Fund and individual trading books, the Fund's liquidity and counterparty risks and the Firm's adherence to its Risk Management Policy.
- Operational Risk Committee – responsible for evaluating and managing RCM's key operational risks, monitoring RCM's internal control and assurance framework and escalating material operational risk issues to the Partnership Board.
- Valuation Committee – responsible for ensuring that the Valuation Policy for pricing of the Fund's portfolio is applied appropriately and consistently and escalating material valuation issues to the Partnership Board.
- Technology Committee – oversees development and implementation of the technology strategy of RCM, including target state and policies. Acts as a validation platform for technology decisions.
- Remuneration Committee – responsible for the development and implementation of remuneration policies and practices across the organisation.

Certain individuals within RCM are also approved as Senior Managers by the FCA under the Senior Managers and Certification Regime (SMCR). These individuals perform key roles within RCM's governance framework, including for example, those of Chair of the Partnership Board (SMF 9 – Chair of the Governing Body) or Compliance Oversight (SMF 16).

## Risk Management

RCM has established a risk management framework to identify, monitor, manage and mitigate risks to the Firm. The risk management framework is designed to cover risks that affect the Firm as an investment manager (typically operational risks) and those that affect the Fund it manages (typically investment risks such as market, credit, liquidity and counterparty risk). The Partnership Board is ultimately responsible for the risk management framework,

determining the Firm's risk appetite, and reviewing the effectiveness of internal controls and promoting a risk awareness culture across the Firm. Day-to-day responsibility for implementing the risk management framework is delegated to the Risk Committee and the Operational Risk Committee who take primary responsibility for managing and mitigating the risks specific to their areas of responsibility. The work of these committees is supported by the Firm's risk and control functions (such as the Risk Department and the Legal and Compliance Department). Where appropriate, the Partnership Board will also appoint external advisors to provide independent reviews of the Firm's processes and controls and provide insights into leading industry 'good practice'.

As an authorized EU AIFM, RCM has also implemented a risk management function and risk management systems consistent with the UK implementation of Article 16 of AIFMD.

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

The Firm's ICAAP includes an assessment of the business risk appetite and the design and performance of the internal controls in place to mitigate risks, the probability of the risk occurring, the potential financial and reputational impact, and the adequacy of the capital base. The ICAAP is reviewed and assessed within the Partnership Board and ultimately signed off by the Chief Executive Officer.

#### Capital Resources Requirement

RCM takes a prudent approach to the management of its capital base and monitors its capital resources to ensure that it holds capital in excess of its regulatory capital requirement at all times. RCM's capital resources comprise solely of Tier 1 capital. There are no deductions for illiquid assets. As at the 31 March 2020, RCM's Tier 1 capital was £15.7m.

#### *Pillar 1*

As a CPMI firm, RCM has an initial capital requirement of €125,000 and an ongoing capital resource requirement. RCM's market and credit risks are not considered material, therefore, its ongoing capital resource requirement is calculated as the sum of its:

- Fixed Overhead Requirement ("FOR"); and
- Professional indemnity insurance ("PII") capital requirement.

For the period ended 31 March 2020, RCM's capital resource requirement under Pillar 1 was £14.2m.

#### *Pillar 2*

The Pillar 2 capital requirement is calculated as part of the ICAAP and represents additional capital to be maintained against any risk not adequately covered by Pillar 1. One of the ICAAP's principal aims is to ensure that RCM maintains adequate financial resources to meet its liabilities as they fall due.

RCM reviews the adequacy of its capital resources at least annually as part of the ICAAP process (or more frequently if there are material changes to the Firm's business model and/or risk exposures). RCM determines the amount of capital it should hold under Pillar 2 through scenario-based analysis and stress testing.

In the Firm's 2020 ICAAP, RCM concluded that its capital requirement under Pillar 1 (£14.2m) was sufficient to withstand unexpected losses arising from the operational and business risks identified and no additional capital was required to be held under Pillar 2. The table below illustrates that, as at 31 March 2020, RCM had capital resources of £15.7m compared to its capital resource requirement of £14.2m. This resulted in a surplus of £1.5m.

Capital Item	£m
Tier 1 Capital	15.7
Tier 2 Capital	0
Tier 3 Capital	0
<b>Total Capital</b>	<b>15.7</b>
Capital resource requirement under Pillar 1	14.2

## Remuneration

RCM has adopted a remuneration policy that complies with the requirements set out in Article 14 of the Alternative Investment Fund Managers Directive (“AIFMD”) and chapter 19B (the “AIFM Remuneration Code”) of the FCA’s Senior Management Arrangements, Systems and Controls Sourcebook (“SYSC”). The firm operates a Remuneration Committee comprising certain members of the Partnership Board. Under the AIFM Remuneration Code, RCM must report annually on the remuneration policy for “Code Staff” being the partners in the firm and certain other individuals whose actions activities could have a material impact on the risk profile of the Firm.

RCM has applied the AIFM Remuneration Code in a proportionate manner, taking into account the Firm’s size, internal organisation and the nature, scope and complexity of its activities. RCM has determined that it is not proportionate for it to apply certain provisions of the AIFM Remuneration Code in setting RCM’s Remuneration Policy, in particular those relating to retained units, shares or other instruments, deferral, and performance adjustment, based on the application of the proportionality elements described in the FCA’s General Guidance on the AIFM Remuneration Code. The Remuneration Committee is responsible for setting the Remuneration Policy for all staff. The Remuneration Policy is designed to:

- be consistent with and promote sound and effective risk management;
- not encourage excessive risk taking or risk-taking which is inconsistent with the risk profile of the Fund;
- include measures to avoid conflicts of interest; and
- be in line with the RCM’s business strategy, objectives, values and long-term interests.

Remuneration is made up of fixed pay (i.e. salary, drawings and benefits) and performance-related pay, which takes into account the individual’s overall performance and the results of the Firm and Fund as a whole. The performance of the individual is assessed over the entire calendar year.

The Firm has one “business area”, being its investment management business. All of its Code Staff that have a material impact on the firm’s risk profile fall into the “senior management” category for the purposes of BIPRU 11.5.18R(7). The aggregate remuneration awarded to the Firm’s Code Staff that have a material impact on the risk profile of the firm during the financial year ending on 31 March 2020 in respect of the 2019 performance year was £140.7m.

## Disclaimer

The information contained set out in this disclosure has not been audited by RCM’s external auditors and does not constitute any form of financial statement and should not be relied upon in making any judgement about the Firm.

BIPRU Pillar 3 rules (BIPRU 11.3.5R and BIPRU 11.4.1R) provide that Pillar 3 disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. BIPRU Pillar 3 rules (BIPRU 11.3.6R and BIPRU 11.3.7R) provide that firms may omit information where the information is regarded as proprietary or confidential.