ARLINGTON CAPITAL

Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of Arlington Capital Limited ("ACL" or "the Firm") is set out below as required by the Capital Requirement Regulation Article 43. This is a requirement which stems from Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential requirements for Credit Institutions and Investment Firms and amending Regulation (EU) No 648/2012 ("Capital Requirement Regulation", "CRR") which represented the European Union's application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date ("ARD") which is 31 March.

Media and Location

The disclosure will be published on the website of the Firm.

Verification

The information contained in this document has not been audited by the Firm's external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRR, to which the Firm is subject to, has three pillars; Pillar 1 deals with minimum capital requirements; Pillar 2 deal with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the Firm and Regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve the market discipline.

The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them. A number of key operations are outsourced to third party providers such as administrators reducing our exposure to operational risk.

The BIPRU Remuneration Code sets out the standards that BIPRU investment firms within scope of the Capital Requirements Directive (CRD) 3 have to meet when setting pay and bonuses for their staff. The disclosures below are the required Pillar 3 disclosures and apply solely to the Firm.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a "BIPRU €50,000 Limited Licence Firm" which does have permission to deal with professional clients and is not authorised to hold client money. The Firm has permission to provide advisory, discretionary, arranging and investment management services. As a consequence, the main risks facing the Firm relate to its operations and its business environment. Whilst the Firm does have some exposure to market risk, this is not considered to be material. The ICAAP only covers Arlington Capital Limited.

Article 435

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Board is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets regularly and is composed of:

- Christian Patrick Teroerde
- John McDonald
- Edward Collins
- Maximilian zu Ysenburg
- Nicholas Britten-Long
- Andrea Tenconi

The Board is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board decide the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. The board is made up of the firm's senior management and is responsible for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Risk Framework

Risk within the Firm is managed by use of the following:

Disclosures concerning the Board

- Number of directorships (excluding those held in respect of FIRM) held by members of the Board

The number of outside directorships held by members of the Board are as follows:

- Christian Patrick Teroerde - 5
- John McDonald - 1
- Edward Collins - 2
- Maximilian zu Ysenburg - 2
- Nicholas Britten-Long

- Recruitment policy for selection of the Board

  The Firms recruitment policy complies with the UK legislation regarding the prevention of discrimination.

- Risk Management

  The Firm operates a risk management framework that sets out the responsibilities and escalation procedures for the identification, monitoring, and management of operational and business risks. Capital planning takes these identified risks into account. Specific personnel are assigned responsibility for the risks across the Firm.

  The Firm's Managing Director takes overall responsibility, with the assistance of the Board, for identifying material risks to the Firm and putting appropriate mitigating controls in place. Risks and mitigating controls are reassessed on a regular basis, taking into account the Firm's risk appetite. Where risks are identified which fall outside of the Firm's risk tolerance levels, or where the need for remedial action is identified in respect of identified weaknesses in the Firm's mitigating controls, then actions are taken to improve the control framework. The management Executive Committee meets regularly to review the quality of the control framework and to satisfy themselves that appropriate controls are in place and that mitigating actions are moving forward.

- Information Flow on risk to Board

The Board is scheduled to have quarterly meetings in which they discuss the day to day running of the business, risk, compliance, and financial matters.

Article 437

Disclosure: Own Funds

The Firm is an BIPRU Limited license Firm. Tier 1 Capital comprises of Shares and Audited Reserves/Losses. As stated in the Company's report and accounts at 31 March 2021, the firm held £245,417 of Tier 1 Capital which comfortably meets the fixed overhead requirement of £203,000.

Article 438

Disclosure: Capital Requirements

The Firm has adopted the Fixed Overhead Requirement ("FOR") approach to the calculation of its ICAAP Capital Resources and is based on Arlington's audited expenditure for the period ended 31 March 2021. The firm has adopted a standardised approach to credit and market risk. The ICAAP assessment is reviewed by the Board and amended where necessary, on an annual basis or when a material change to the business occurs. The COO presents the ICAAP document to the Board of the Firm which reviews and endorses the risk management objective annually or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

The Firm's Pillar 1 capital requirement is calculated in accordance with the General Prudential Sourcebook ("GENPRU") as the higher of the FOR, the sum of market and credit risk requirements, or the base capital requirement of €50,000. The Firm's credit risk is calculated as per the "Standardised Approach (BIPRU 3.4)" and market risk, in line with BIPRU 7.5. As at 30 March 2021 the Firm's Pillar 1 capital requirement was determined by the Fixed Overhead Requirement and totalled £203,000 the firm's Tier 1 Capital comfortably exceeds this.

Article 445

Disclosure: Exposure to Market Risk

Cash balances within the firm are mainly held in Sterling, but the company does earn revenue in Euros and US Dollars, but FX risk is not considered material. There are a few, minimal, creditors who request payment in Euros or US Dollars.

The Firm considers both the management fee accruals and bank deposits in currencies other than sterling to hold a level of exchange rate risk and holds a certain level of capital (per the standard calculation) against this. The Firm does not believe this risk to be high enough to require holding extra capital above that already calculated through the standard calculation. The Firm does not hold securitisation positions and therefore there is no Specific Interest Rate Risk to disclose.

Where the firm's income is measured as a percentage of assets under management, market risk can cause this to fluctuate, but as these are a small percentage of the firm's overall revenues the Firm does not believe this risk to be high enough to require holding extra capital above that already calculated through the standard calculation.

Article 446

Disclosure: Operational Risk

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and/or systems, or from external events including legal risk. The Firm seeks to minimise operational risk through a control framework, particularly when engaging in new business ventures or trading new products. The Firm considers risks which may impact upon the Firm directly or indirectly. As an advisor/arranger and investment manager, the Firm is, and the systems and controls it is reliant upon are considered adequate, and the Firm considers its operational risks to be minimal.

Article 450

Disclosure: Remuneration Policy

As defined by the Remuneration Code, the Firm is a Proportionality Level 3 Remuneration Code Firm and as such, the rules appropriate to its Proportionality Level are applied. The Board is responsible for the Firm's remuneration policy. Remuneration is determined and reviewed annually by the Executive Committee before being approved by the Board. The Board do not believe the Firm is of a sufficient size or complexity to require a "Remuneration Committee", based on the grounds of proportionality. The Firm does not employ the services of an external consultant for this purpose. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Staff

BIPRU Remuneration Code staff comprises categories of staff including senior management, risk-takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk-takers, whose professional activities have a material impact on the Firm's risk profile. ACL takes reasonable steps to ensure all Remuneration Code staff understand the implications of their status, including the potential for remuneration which does not comply with certain requirements of the BIPRU Remuneration Code to be rendered void and recoverable by the Firm.

Principles of the Remuneration Code

The overriding requirement of a firm's Remuneration Code is that it must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management (SYSC 19A.2.1). The FCA accomplishes this by documenting twelve principles that should be present in all Remuneration Codes. Although not all will apply to a Tier 3 firm such as ACL. The twelve principles can be found in SYSC 19C.3.

As a Tier 3 firm ACL can disregard certain of the rules in Principle 12 of the Remuneration Code and must apply the remuneration policies in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities. This exemption has been given in the FCA's General Guidance on Proportionality revised in May 2017, which can be downloaded from the FCA website. The most relevant sections are Parts D and E. Under Part E of this Guidance the Firm would not be classified as "significant" in terms of its size.

The firm operates the following types of variable remuneration:

- Commission related profit shares for Members of the Partnership based on performance.
- Performance related discretionary bonus payments for salaried employees.

The calculation of variable remuneration is aligned with the risks of the business and not simply based on the up-front profit generated by the transactions. These arrangements are very much linked to performance and not to guaranteed profit allocations.

For the year ended 31 March 2021 6 members of staff were classified as code staff as at the year end, based on the following criteria:

- All persons performing a significant influence function (SMF1-27).
- All staff, whose total remuneration takes them into the same bracket as senior management.
- Those whose professional activities could have a material impact on the Firm's risk exposure.

The Director's further confirm that any variable remuneration, if payable will always be linked to the interests of the firm and unlikely to encourage any risk taking.

For the year ended 31 March 2020 the total remuneration awarded to Code Staff was £277,533.

July 2021