

Canyon Capital Advisors (Europe) Ltd Pillar 3 Disclosure

Disclosure Policy

The Capital Requirements Directive IV (“CRD IV”) is an EU legislative package that establishes a revised prudential framework in the European Union governing the amount and nature of regulatory capital that credit institutions and investment firms must hold and maintain. The CRD IV package is comprised of the Capital Requirements Directive (2013/36/EU) and the Capital Requirements Regulation (EU No 575/2013) and implements the Basel III rules on capital standards.

In the United Kingdom, the directive was implemented through changes to the Financial Conduct Authority (“FCA”) Handbook of Rules and Guidance, and specifically through the creation of the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

The CRD IV framework consists of three pillars:

- Pillar 1 – sets out the minimum capital requirements for the investment manager;
- Pillar 2 – deals with the Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by the Firm to assess the adequacy of capital held in relation to its material risks; and
- Pillar 3 – requires the Firm to publicly disclose its policies on risk management, capital resources and capital requirements.

Disclosure policy

The Pillar 3 disclosure of Canyon Capital Advisors (Europe) Ltd (“Canyon” or the “Firm”) is set out below. The regulatory aim of the disclosure is to improve market discipline.

Canyon makes Pillar 3 disclosures annually, via its website. The information contained in this disclosure is accurate as at 31st December 2020. It has not been audited by Canyon’s external auditors and does not constitute any form of financial statement.

Certain information relating to BIPRU 11.5 may be omitted on the basis that it has been deemed to be immaterial or proprietary/confidential. The Firm regards information as material in the disclosure 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. The Firm regards information as proprietary/confidential if sharing that information with the public would undermine its competitive position. Proprietary/confidential 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.

Background to the Firm

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised by the FCA, for capital purposes, as a BIPRU firm. It is an investment management firm and has no trading book exposures.

The Firm reports on a solo basis and is not required to prepare consolidated reporting for prudential purposes.

Capital Resources Requirement

Pillar 1 - Minimum Capital Requirements

As a BIPRU firm, Canyon has adopted the standardised approach for the Pillar 1 regulatory capital calculation of credit risk. The Firm is not subject to Pillar 1 operational risk requirements under BIPRU 6.

The Pillar 1 capital requirement for a BIPRU firm is calculated as the higher of the:

- Fixed Overheads Requirement (“FOR”); and
- the sum of market and credit risk requirements or
- the base capital requirement of €50,000.

The Firm has deemed the sum of market and credit risk requirements to be the higher of the three considerations above, this is therefore used for the Pillar 1 calculation.

As Canyon does not deal as a principal and holds no current assets other than cash, in sterling or foreign currency, the Firm’s non-trading book market risk requirement is the Foreign Currency Position Risk Requirement for which the Firm multiplies the sum of the absolute values of its ‘open currency position’ by 8%.

Pillar 2 – ICAAP

The Firm’s ICAAP includes an assessment of 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 Firm’s capital base.

The ICAAP is the process through which Canyon determines that it is able to identify and manage its key risks on an on-going basis and ensure that it has sufficient capital in respect of such risks. The process is forward looking and is an integral part of the management of the Firm. The Chief Compliance Officer (“CCO”) is responsible for the ICAAP within Canyon and consulted with the Firm’s Chief Executive Officer (“CEO”) and other appropriate members of staff to ensure the accuracy of his findings.

The Firm’s senior management formally reviews and approves a finalised ICAAP document on at least an annual basis (or more frequently if there are material changes to the Firm’s business model and risk exposures). The senior management, as part of its review of the ICAAP, sets the Firm’s risk appetite, validates that the Firm’s key material risks have been considered and assessed, and validates the stress testing scenarios.

Capital Resources

The main features of the Firm’s Capital Resources are as follows:

Capital Item	£'000s
Tier 1 capital less innovative tier 1 capital	10,575
Tier 2 capital	0
Tier 3 capital	0
Total capital resources, net of deductions	10,575

Risk Management Objectives and Policies

Due to the nature, size and complexity of the Firm, Canyon does not have an independent risk management function. Senior management is responsible for the management of risk within the Firm and their individual responsibilities are clearly defined. Senior management report to the Firm's governing body on a frequent basis regarding the risks. Canyon has clearly documented policies and procedures, which are designed to minimise risks to the Firm and all staff are required to confirm that they have read and understood them.

Canyon undertakes an ICAAP at least annually, which is the process through which Canyon determines that it is able to identify and manage its key risks on an on-going basis and that it has sufficient capital in respect of such risks. The process is forward looking and is an integral part of the management of the Firm.

Following the completion of the ICAAP, the Firm has concluded that its Tier 1 capital is sufficient to cover its Pillar 1 and Pillar 2 requirements.

Remuneration

Canyon must comply with the BIPRU Remuneration Code ("the Code"). The purpose of the Code is to ensure that firms have risk focused remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk. The Firm has reviewed all existing employment contracts to ensure they comply with the Code.

Senior management are responsible for setting the Remuneration Policy Statement for all staff and the Compliance Officer is a member of the senior management team. No external consultants have been engaged on remuneration matters.

The Code can be applied in a proportionate way and the FCA have stated that it will normally be appropriate to disapply certain rules. As such senior management has determined that the following rules are not proportionate to Canyon and have not implemented these detailed rules:

- SYSC 19C.3.44 – Ratios between fixed and variable components of total remuneration;
- SYSC 19C.3.47 – Retained shares or other instruments;
- SYSC 19C.3.49 – Deferral; and
- SYSC 19C.3.51 – Performance adjustment

Variable remuneration is not based solely on the financial performance of the individual. Senior management also considered the individuals overall (non-financial) performance to the whole team and the overall results of the fund/firm. The performance of the individual is assessed over the entire year.

Due to the small number of its Remuneration Code Staff, and therefore to concerns over the disclosure of personal data, in compliance with requirements under the EU General Data Protection Regulation (GDPR), the Firm has determined not to disclose remuneration data.