

ISAM (UK) Limited
Pillar 3 disclosures
30 June 2009

TABLE OF CONTENTS

Section	Page
1	Scope of Pillar 3 application 3
1.1	Regulatory background..... 3
1.2	Disclosure basis and prudential requirements 3
2	Risk management framework 3
3	Business strategy 4
4	Capital resources..... 4
5	Market risk..... 4
6	Credit risk..... 4
6.1	Customer analysis 4
6.2	Credit risk capital component 6
6.3	Concentration risk capital component..... 6
6.4	Counterparty risk capital component..... 6
6.5	Pillar 2..... 7
7	Operational risk 7
7.1	Review of specific operational risk..... 7
7.2	Pillar 2..... 8
8	Ensuring our capital is adequate and Pillar I requirement 8

1 Scope of Pillar 3 application

1.1 Regulatory background

The requirement for certain regulated firms to make disclosures to the market to assist market transparency arose from the third of the three supervisory pillars set out in the revised Basel Accord ('Basel II'), which were written into European Law through the Capital Requirements Directive ('CRD').

Collectively the three pillars form an overall framework for the prudential supervision of banks, credit institutions and investments firms. The aim of the framework is to govern how much capital firms must hold to protect their members, depositors and shareholders. In the UK, this is being implemented by the regulator, the Financial Services Authority ('FSA').

The first pillar amended the existing minimum regulatory capital standards for three major components of risk faced by firms: credit, market and operational risk.

The second pillar required firms to assess the amount of internal capital they considered adequate to cover all of the risks to which they are exposed (documented in the Internal Capital Adequacy Assessment Procedure ('ICAAP') report). The FSA will review and evaluate a firms' ICAAP as part of its Supervisory Review and Evaluation Process (SREP) and will issue individual guidance on the regulatory capital that they consider appropriate for a firm to hold.

The third pillar requires firms to publish key information about their underlying risks and controls, which is the focus of this document.

1.2 Disclosure basis and prudential requirements

ISAM (UK) Limited ('ISAM (UK)') is incorporated in the UK. Its accounting and prudential reporting is therefore done on an individual, rather than consolidated basis, as it does not form part of a UK consolidation group.

All disclosures are therefore shown on an individual company basis.

ISAM (UK) is a BIPRU €50,000 Limited Licence firm which does not carry permission to hold and control client assets.

2 Risk management framework

The risk management framework of ISAM (UK) is managed by the sole shareholder and key employee, Mr Roy Sher, and procedures and monitoring are in place to mitigate day to day operational and regulatory risks.

A risk framework document has been prepared and is reviewed by the Directors annually for changes to risks, the risk scoring, and capital requirements, and more frequently if it is felt necessary.

3 Business strategy

International Standard Asset Management Ltd (“ISAM”) was appointed Manager of The International Standard Macro Fund and the International Standard Macro Master Fund in July 2008.

The Manager delegates investment management decision making to ISAM (UK) Ltd previously known as RoySher Ltd London, England.

ISAM (UK) is a UK registered company, authorised and regulated by the Financial Services Authority (FSA Registration Number: 230561), registered 17th February 2004.

4 Capital resources

The capital of ISAM (UK) is solely classified as tier one capital. Tier one capital comprises of called up ordinary share capital and the audited profit and loss reserves.

A summary of the total capital resources as at 30 June 2008 are shown below:

	£000's
Paid up share capital	40
Profit and loss account	112
Total capital	152

The profit and loss reserves are as at 30 June 2009, per the latest audited financial statements.

5 Market risk

Market risk is the risk of loss arising from adverse movements in the level or volatility of market prices of securities held by the Company.

ISAM (UK) does not deal as principal and does not hold any foreign currency exposures; consequently the Pillar 1 market risk component is largely not applicable.

6 Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligation under a contract and refers to non-trading debtors only.

The Company will use the simplified method of the standardised approach to calculate credit risk

6.1 Customer analysis

The numerical disclosures include the total amounts after accounting offsets and without taking into account the effects of the credit risk mitigation and are shown for the Company. The exposures are analysed by class, geographical distribution and residual maturity:

6.1.1 Maximum credit risk exposure by class

	30 June 2009 £000's
Fixed assets	3
Trade debtors:	
Corporates	11
Other debtors:	
Corporates	6
Prepayments and accrued income:	
Corporates	5
Cash at bank and in hand:	
Bank	145
	170

6.1.2 Geographical distribution by exposures class

	2009 £000's
United Kingdom:	
Corporates	14
Bank	145
	159
Cayman Islands:	
Corporates:	11
	170

6.1.3 Residual maturity of assets by exposure class

2008	Current	Within 3 months	Over 3 months
	£000's	£000's	£000's
Corporates	11	11	3
Bank	145	-	-
	156	1	3

6.1.4 Provisions

It is the firm's policy that an appropriate allowance is made for impaired exposures on a consistent basis.

Balances are classified as past due when they are older than 90 days.

Debts are assessed on an individual customer basis by considering the exposure to the firm and the amount and timing of expected receipts. Should the Directors assess the likelihood of receipt to be uncertain, provisions are made which are considered sufficient to ensure that amounts recorded as assets are covered by anticipated receipts.

There were no provisions held against any of the above credit exposures at the year end.

6.2 Credit risk capital component

The credit risk capital component of a firm is 8% of the total of its risk weighted exposure amounts for non-trading book exposures. The Company has elected to use the "simplified method" of calculating risk weights as it only has incidental credit exposures.

All exposures to "Corporates" have been assessed as having a 100% risk weighting attached to them.

	£000's
1.6% of cash	2
8% of total assets excl bank	2
Credit risk capital component	<u>4</u>

6.3 Concentration risk capital component

This element relates to trading book and non-trading book exposures. As ISAM does not have a trading book there is no explicit capital requirement.

ISAM ensures that it complies with the hard limit for non-trading book exposures by ongoing monitoring of non-trading book exposures in relation to capital resources and make sure relevant individual exposures are less than 25% of capital resources and that in aggregate relevant exposures are less than 800% of capital resources.

	£000's
Concentration risk capital component	<u>£nil</u>

6.4 Counterparty risk capital component

The counterparty risk capital component relates to the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

As ISAM (UK) does not have a trading book, the potential counterparty risk capital component applies with respect to any exposures the firm has within its non-trading book. ISAM (UK) does not hold any financial derivative instruments on its balance sheet and is

not party to any unusual transactions. If there are any long settlement issues or in the unlikely event that there is a default of a relevant counterparty then the relevant capital component to account for this exposure would be calculated

	<u>£000's</u>
Counterparty risk capital component	<u>nil</u>

6.5 Pillar 2

The Company has considered credit risk as an explicit Pillar 1 charge and does not believe that there is any additional credit risk, concentration risk or counterparty risk elements that need to have additional Pillar 2 capital charges.

7 Operational risk

Operational risk is the potential for financial and reputation loss arising from failures in internal controls, people, operational processes or the systems that support them, or due to external events. It includes errors, omissions, disasters and deliberate acts such as fraud.

The regulated environment in which the firm operates, impose extensive reporting requirements and continuing self assessment and appraisal. The firm seeks continually to improve its operating efficiencies and standards.

ISAM (UK) is not required to provide for operational risk within its Pillar 1 capital. However, the Fixed Overhead Requirement is the equivalent operational risk requirement for limited licence firms. The Fixed Overhead Requirement amounts to one quarter of the annual relevant fixed expenditure, less a number of permitted items specified in GENPRU 2.

	<u>£000's</u>
Fixed Overhead Requirement	<u>97</u>

7.1 Review of specific operational risk

7.1.1 Liquidity risk

The company finances its operations through share capital and retained earnings. Surplus funds are placed on deposit with a highly rated bank. The liquidity of the company is reviewed on an ongoing basis by the Directors to ensure that it can meet its liabilities as they fall due. The company does not believe that any additional capital is needed to mitigate this risk.

7.1.2 Loss of key staff

ISAM (UK) is reliant on one individual for generating revenues or for running business. In the event of losing key employer Mr Sher, the company would cease trading and would be in a position to wind down in an orderly manner.

7.1.3 Outsourcing:

ISAM (UK) does not outsource any arrangements.

7.1.4 Insurance risk

The firm has insurance cover provided through an appropriate policy. The deductible can be covered through surplus funds.

7.1.5 Securitisation risk

The Company does not enter into any such transactions.

7.1.6 Pension risk

The Company does not operate any pension scheme, either contributory or defined benefit, and is therefore not exposed to any pension's risk.

7.2 **Pillar 2**

The Company believe the fixed overhead requirement is an accurate indicator of the risks faced and is sufficient to mitigate its risks.

The Board does not believe there are any additional capital requirements on the company as a result of operational risk due to the nature and size of the entity.

8 **Ensuring our capital is adequate and Pillar I requirement**

ISAM (UK) needs to ensure it retains enough capital to adequately finance its current and future activities. Each year an annual planning process looks at major expected events and on-going business. The financial impact of this plan is recorded in our budget and our capital forecast is reviewed in light of the results. Where necessary the capital is adjusted.

During any financial year, opportunities and issues may arise which need a re-assessment of our capital needs. At this point ISAM (UK) will update the financial forecast and capital resources model to reassess the impact on capital.