Marshall Wace LLP

Capital Requirements Directive - Pillar 3 Disclosures

1. Background

The European Union's Capital Requirements Directive ("CRD") came into effect on 1 January 2007 and introduced a set of revised regulatory capital adequacy standards and associated supervisory framework across the European Union based on the Basel II Accord. The Basel II Accord comprises recommendations issued by the Basel Committee on Banking Supervision which aimed to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against various financial and operational risks. The Financial Services Authority ("FSA") implemented the CRD in the United Kingdom.

The CRD uses the concept of three pillars that also form the basis of the Basel II Accord and extends the requirements to cover a wide range of financial institutions. These three pillars are also embedded in the FSA's rules that implement the CRD.

Pillar 1 specifies the minimum capital resources Marshall Wace LLP ("the firm") is required to hold. In the case of the firm this is the highest of Euro 125,000, the sum of its market and credit risk requirements, and its Fixed Overhead Requirement ("FOR").

Pillar 2 sets out the review process to be used by the firm and the FSA to determine whether additional capital should be held against any risks not adequately covered by Pillar 1. Under Pillar 2 the firm is required to analyse a wide range of risks to its business and then consider whether the mitigation in place to address these risks is sufficient or whether additional capital in excess that available under Pillar 1 is required to provide a buffer against specific risks. This procedure forms part of the firm's Internal Capital Adequacy Assessment Process ("ICAAP").

Pillar 3 requires the firm to develop a set of disclosure requirements which enable market participants to assess information on the risks facing the firm, its capital resources and risk management procedures.

2. Scope of Disclosure

The disclosures in this document are made in respect of Marshall Wace LLP, an investment management firm providing services to a range of offshore funds, UCITS funds and segregated accounts. It is authorised and regulated by the Financial Services Authority and is categorised as a Limited Licence €125,000 firm. Its FSA Part IV permission does not allow it to hold client money. The firm does not fall within the definition of a UK consolidation group and is thus not required to prepare disclosures on a consolidated basis.

3. Risk management objectives and policies

The firm's approach to risk management is predicated on the need to manage the full range of risks facing the firm including credit, market, business, operational and liquidity risks including those that may arise as a result of its association with companies in Hong Kong, the US and Ireland. The firm's overriding aim in this area is to minimise the risks to the firm's

clients, its counterparties and other stakeholders and to ensure it remains in full compliance with regulatory and legal requirements.

Operational Risk

The firm's risk management framework incorporates an analysis of the impact of each risk on the business, the probability of each risk occurring and the procedures in place in mitigation. This risk management framework is a core component of the firm's high level systems and controls arrangements and ensures all areas of the business are subject to senior management oversight. The firm's partners review all aspects of the business on a regular basis to ensure operational risks have been identified, recorded in the firm's register of risks and effective controls put in place to mitigate the risks identified, in order that the combination of the impact assessment and probability of each risk is kept to an acceptable level.

The risk management framework is supported by a wide range of real-time management information systems that monitor performance against key performance indicators ('KPI'). The firm articulates its risk appetite through this framework of KPIs which are coded to indicate the degrees of deviation from the targeted range. The firm has embedded within its business processes, at all levels, robust and effective risk management processes that are subject to regular appraisal. These appraisals are supported and enhanced by compliance through its independent and risk orientated monitoring procedures, the output from which is communicated to senior management through regular reports.

Business Risk

The firm's main business risk relates to a possible fall in assets under management as a result of turbulence in markets and a consequent diminution in investment management fees. This exposure is mitigated, to a certain extent, by having a range of funds with substantially differing geographical and return profiles, varying volatility and non-correlated return characteristics. The risk is further diversified through a joint venture arrangement with an established long-only asset manager in Hong Kong.

Liquidity risk

The risks arising the firm's involvement with other entities with which it is associated are closely monitored. The risk that the business will be unable to meet its financial obligations as they fall due is not considered material for the purposes of this disclosure.

Credit risk

In the case of segregated accounts, provision for the non-payment of fees is governed by the firm's agreements with these clients, the terms of which are subject to confidentiality clauses. The risk of the non-payment of investment management fees arising from the firm's management of a range of offshore funds is mitigated by the funds' appointment of an independent administrator. In the case of bank deposits, money is only deposited with highly rated approved counterparties.

Market Risk

The firm's market risk is limited to exposure to foreign exchange fluctuations as a result of certain assets and liabilities being denominated in currencies other than Sterling.

4. Capital resources

Pillar 1

The firm's capital resources comprise its Tier 1, Tier 2 and Tier 3 capital. Tier 1 capital consists of audited reserves. The firm has no 'innovative Tier 1' instruments.

Tier 2 capital comprises upper Tier 2 members' capital less an adjustment to reflect regulatory limits on the amount of capital that may be held in the Tier 2 category with this excess being carried over into Tier 3. There is a deduction from the combined Tier 1 and Tier 2 capital to reflect the investment in subsidiary undertakings.

Tier 3 capital comprises excess Tier 2 capital.

In accordance with the FSA's prudential rules, the firm's Pillar 1 (its variable capital requirement) has been determined as its fixed overhead requirement.

Pillar 2

Pillar 2 capital is the sum of the firm's Pillar 1 capital and any additional capital required to be maintained against risks not adequately covered under its Pillar 1 requirement. The firm's overall approach to assessing the adequacy of its internal capital is set out in its Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP involves consideration of a range of risks faced by the firm and determines the level of capital needed to cover these risks. The level of capital required by the firm to cover identified risks is a function of their impact and probability and risk mitigation controls in place. The firm believes it has taken a prudent approach to its Pillar 2 calculations and holds sufficient capital to meet its operational and other risk requirements. Stress and scenario tests performed during the ICAAP supported management's view that adequate additional capital is held by the firm under Pillar 2.