

Pillar 3, Stewardship Code and Remuneration Disclosure

31 December 2017

Introduction and background

The Capital Requirements Directive ('the Directive') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment firms ('BIPRU'). The FCA framework consists of three Pillars:

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet Pillar 1 requirements and, further, to determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet the firm's Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by Bluefin LLP ("the Firm") in accordance with the requirements BIPRU 11, and is verified by the Firm's partners. Unless otherwise stated, all figures are as at 31 December 2017, the Firm's financial year-end.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. We have made no omissions on the grounds that it is proprietary or confidential and we have clearly stated within the specific risk where we feel that disclosure would be immaterial.

Scope and application of the requirements

The Firm is authorised and regulated by the Financial Conduct Authority and as such it is subject to minimum regulatory capital requirements. The Firm is categorised by the FCA as a full scope firm for capital purposes. The firm has a simple operational infrastructure. The nature of the firm's business is proprietary trading in Exchange Traded Funds and Futures, the risks to which the firm is exposed are principally those of a fiduciary and operational in nature and are managed according to the firm's operational and compliance risk guidelines including its ethical standards.

Risk management objectives and policies

The Firm is governed by members who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business

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faces. The Members also determine how the risk our business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Members meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Members manage risks through a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Members have identified that business, reputational, operational, market and credit risks are the main areas of risk to which the Firm is exposed.

Annually the Members formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Members identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate. Their general objective is to develop systems and controls to mitigate risk to a level that does not require the allocation of Pillar 2 capital.

Capital Resources

The Capital resources of the firm are made up of the member's capital and the Profit and Loss reserve account. Where applicable, current year losses are also taken into account. The capital therefore all qualifies as Tier 1 capital.

Under the 4th iteration of the Capital Requirements Directive ("CRD IV") the capital requirements of a firm such as Bluefin are determined according to the risk weighted assets of the firm. CRD IV allows the use of a standardised approach and an advanced approach to calculating risk weighted assets. Standardised approaches use supervisory risk-weightings as opposed to the advanced approach which allows for the use of internal models.

The main features of the Firm's capital resources for regulatory purposes are as follows:

Regulatory capital as at 31 December 2017	USD('000)
Total tier 1	13,408
Total tier 2 capital	
Total tier 3 capital	
Deductions from Tier 1 and Tier 2	
Total Capital Resources	13,408

Risk Weighted Assets

The Firm is relatively small with a simple operational infrastructure. The firm has market risk exposures due to the net positions it holds on its balance sheet and exposures due to foreign exchange. The firm actively hedges its positions but, as it uses the standardised approach to calculate risk weighted assets it is possible the hedges the firm has put in place actually increase the risk weighted assets as the conditions that must be met to offset risks are very specific.

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The Firm has credit exposure on margins held at clearing houses and cash held at credit institutions and, due to the way the rule works, on all other assets on its balance sheet. In accordance with the rules, the Firm's operational risk requirement is a function of its operating expenses.

As at the year-end the risk weighed assets of the firm amounted to:

Risk Weighted Assets as at 31 December 2017	USD (000)
Market Risk	2,841 USD
Credit Risk	3,352 USD
Operational Risk	1,738 USD
Total Risk Weighted Assets	7,931 USD
Capital Ratio	23%

Compliance with overall Pillar 2 rule

Under Pillar II of the CRD, the firm is required to enact an Internal Capital Adequacy Assessment Process (ICAAP). This is an ongoing process. The ICAAP document is presented to the Members of the firm for formal review and approval. The data and assumptions used in the assessment of risk and capital adequacy are continually assessed and updated. This includes stress testing of various scenarios. Should new risks materialise or be identified by the firm, then these risks will be incorporated into the overall review process.

Remuneration disclosure

The Firm is authorised by the FCA as a full scope firm and is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the Chapter 198 of SYSC Sourcebook in the FCA's handbook.

The remuneration Code covers individuals' total remuneration, comprised of both fixed and variable elements. The Firm incentivises employees and members through a combination of the two. The Firm's Remuneration Policy is designed to ensure that it complies with applicable Remuneration Code, and its compensation arrangements:

1. Are consistent with and promotes sound and effective risk management;
2. Do not encourage excessive risk taking which is inconsistency with the Firm's risk profile;
3. Includes measures to avoid conflict of interest; and
4. Are in line with the Firm's business strategy, objectives, values and long term interests.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of size must disclose quantitative information referred to in BIPRU 11.5 at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities.

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The firm is not significant and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff and members whose professional activities have a material impact on the risk profile of the firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

1. Summary of information on decision-making process used in determining the firm's remuneration policy:

- The Firm's policy has been agreed by the Members in line with the Remuneration principles laid down by the FCA.
- Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.
- The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

2. Summary of firm links between pay and performance:

- Employees are rewarded, based on their contribution to the overall strategy and success of the business, in terms of trading, operational and compliance.
- Other factors such as performance, reliability, effectiveness of control, business development and contribution to business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the firm.

The members of the firm are not paid any variable performance related pay as they are paid in accordance with the Firm's constitutional document.

3. In accordance with CRD III the Firm takes a proportionate approach to its Remuneration Code disclosures in line with the nature, scale and complexity of the Firm and as such has chosen not to disclose exact remuneration figures in regard to the remuneration of the staff identified by the Firm's policy.

4. Partnership profits allocated to members of the LLP are disclosed in aggregate in the report and accounts.

We may omit required disclosure where we believe that the information could be regarded as prejudicial to the UK and or other national transposition of Directive 95/46/EC of the European Parliament and the Council of 24 October 1995 on the protection on individuals with regard to the processing of personal data and on the free movement of such data.

We have made no omission on the grounds of data protection.