# Bluefin Europe LLP
# Pillar 3 Disclosure
# 31 December 2020

## 1 Entities Covered

These disclosures relate to Bluefin Europe LLP ("BFIN") or ("the Firm"). BFIN is registered in England & Wales with company number OC339361 and is authorised and regulated by the Financial Conduct Authority ("FCA") under firm reference number 492678.

## 2 Introduction and background

BFIN is a London based firm which specialises in Exchange Traded Funds (ETFs). We provide liquidity on the exchange and block trading facility for Emerging Markets, Bond and Commodity ETFs.

The Capital Requirements Directive/Capital Requirement Regulation of the European Union establishes a 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'), the Prudential Sourcebook for Banks, Building Societies and Investment firms ('BIPRU') and the Prudential Sourcebook for Investment Firms('IFPRU'). 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.

This document is designed to meet Bluefin Europe LLP's ("BFIN") Pillar 3 obligations.

Unless otherwise stated, all figures are as at 31 December 2020, the Firm's most recent financial year-end.

## 3 Frequency of disclosure

BFIN will make Pillar 3 disclosures at least annually.

## 4 Omissions from disclosures

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.

# 5 Verification

This disclosure is made by the members of BFIN it has not been audited by the LLP's external auditors as there is not a requirement to do so.

# 6 Risk management objectives and policies

The Firm is governed by the 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 faces;
- determines how those risks may be mitigated; and
- assesses 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.

At least annually the Members formally review the 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.

## 7 Capital Resources

The capital resources of the Firm are made up of 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.

The capital resources are made up as follows:

| | |
|---|---|
| Members Capital Accounts | $13.000,000 |
| Reserves | $ 9,824,750 |
| Total Tier 1 Capital Resources | $22,824,750 |

## 8 Pillar 1 Capital Requirements

Under the 4th iteration of the Capital Requirements Directive ("CRD IV") the capital requirements of a firm such as BFIN 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 Firm is relatively small with a simple operational infrastructure. The Firm has market risk and credit exposures due to the net positions it holds on its balance sheet and exposures due to foreign exchange.

As a result of its trading activity BFIN has holdings in financial instruments.  Whilst BFIN will generally hedge its exposures as soon as possible it carries exposures on its balance sheet in accordance with its risk appetite.  In addition, when Bluefin hedges its exposures those hedges, whilst deemed effective for internal risk appetite purposes may not precisely offset the risk in way that is recognised by the regulatory capital rules.

In addition, 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 revenues.

The capital requirements due to market risk and credit risk are a function of the balance sheet at any one point in time.  The disclosures at a point in time, e.g. 31 December are potentially misleading as the balance sheet at that time may or may not be representative of the usual state of affairs.

BFIN is required to have a Tier 1 capital ratio of 6.5% of risk weighted assets and a total capital ratio of 8.0% of risk weighted assets. As all of BFIN's capital is Tier 1 capital the required ratio is 8%.

BFIN has determined that the capital required to support the business amounts to $10,000,000 or expressed alternatively that its risk weighted assets are not expected to exceed $100,000,000.  This calculation takes into account that in common with many other firms who have a trading book the FCA has imposed an additional capital requirement and the capital required is 156% of the basic calculation.

As of the balance sheet date, post completion of the audit, BFIN has regulatory capital of $22,824,750 and had risk weighted assets of $46,400,000.

The total capital ratio expresses as a percentage of the risk weighted assets is 49.19% versus a minimum requirement of 8%.

# 9 Pillar 2 Capital Requirement

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.

The Pillar 2 capital requirement has been calculated based on BFIN's assessment of all the risk that is carries and allowing for a peak market exposure based on its internal risk assessment.

# 10 Principal risks BFIN is exposed to

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

## 10.1 Market Risk

Market risk is the risk arising from changes in market prices of assets held including the potential changes due to changes in foreign exchange rates. BFIN is a trading business, it makes money from the buying and selling of securities. BFIN provides market liquidity by quoting for trades in exchange traded funds ("ETFs"). BFIN operates a real time risk management framework and generally tries to hedge its exposures as soon as possible. BFIN's aim is to make money from spreads in the manner of a brokerage firm rather than the Firm taking a view on market direction. It is not always possible to hedge immediately and it may be expeditious to hedge using proxy assets rather than legally offsetting positions. The way that the regulatory capital requirements work is that hedges that are not perfect, i.e. those that use proxy hedges may, for regulatory purposes, result in increased exposure rather than reduced exposure, as the rules on offsetting of assets and liabilities are very strict. BFIN monitors its exposures to ensure that the regulatory capital is sufficient to support the trading exposures held at any one time.

## 10.2 Credit Risk

Credit risk is the risk that a financial loss may be incurred if a counterparty fails to fulfil its obligations or if the issuer of a security held by BFIN were to default. BFIN has exposures to its bankers, its clearing brokers and to counterparties. In the case of counterparties all transactions are undertaken on a delivery versus payment basis which means that BFIN's exposure is limited to the difference between the agreed price for the asset and the price at which BFIN can buy or sell the asset from another counterparty rather than the total value of the unsettled trade. BFIN monitors its exposure to its bankers and clearing brokers on a daily basis. Counterparty exposures are assessed at an overall single counterparty exposure basis and where necessary on a trade by trade basis.

## 10.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. BFIN has invested in systems, controls and highly experienced personnel as a means of minimising operational risks. The partners are intimately involved in all aspects of the business and their oversight is one of the ways that operational risks are minimised. The Firm has robust reconciliation processes that are designed to swiftly identify operational errors and to allow prompt correction of any errors arising which should minimise the cost of such errors.

### 10.3.1 Operational process risk

The Firm believes operational risk is relatively low due to its strong compliance culture and attention to detail in its middle office and back office.

The Firm makes appropriate investments in technology, capital and staff to ensure that its operational risks are adequately managed.

The Firm is able to make use of the resources of other members of the Bluefin Group as necessary but does not rely on them other than as set out in 'Outsourcing' below.

### 10.3.2 Business continuity / Disaster recovery

The Firm prepared a business continuity plan, which is communicated to staff and conducts regular disaster recovery tests.

### 10.3.3 Financial Crime Risk

The Firm deals with a small number of counterparties the vast majority of whom are regulated firms. The firm is nevertheless aware of financial crime risks including bribery and market abuse. All members of staff receive an appropriate training on what is expected of them in relation to the prevention and detection of financial crime and the consequences for themselves and the Firm if they fall short of that expectation. The Firm encourages all staff to bring all concerns, no matter how minor, to the attention of the money laundering reporting officer.

## 10.4 Reputational risk

Reputational risk is the risk of a negative effect on the profit and loss account of the BFIN caused by adverse reactions of stakeholders (costumers, employees, partners etc.) due to their altered perceptions or the integrity or robustness of the Firm. BFIN places great value on its reputation and seeks at all times to conduct itself in a manner consistent with the highest standards of ethical behaviour. BFINs counterparties are not exposed to default risk if BFIN were unable to meet its liabilities as they fall due as the clearing broker is responsible for clearing the transaction. BFIN maintains strong relationships with its clearers so any reputational issue can be resolved promptly. BFIN remains aware that counterparties will only transact with BFIN if they believe BFIN has integrity and BFIN seeks to ensure that its staff always meet BFINs requirements in this regard.

## 10.5 Liquidity Risk

Liquidity risk is the risk arising from a difficulty in realising assets or otherwise raising funds to meet commitments associated with liabilities or financial obligations as they fall due. The Firm relies upon its clearers to provide facilities for its trading. The nature of the instruments that the Firm holds, especially as positions are broadly hedged and can be eliminated by converting assets into ETFs or vice versa means that the risk of loss of liquidity is broadly limited to a loss of revenue not to a risk of being unable to settle liabilities as they fall due.

## 10.6 Business Risk

### 10.6.1 Changes in the ETF market

The Firm operates as a liquidity providor in the ETF market. Changes in the way the ETF market structure or in the popularity of ETFs as a means of investing may impact the volume of business the Firm is able to conduct.

### 10.6.2 Relationships with ETF issuers

The Firm relies upon its relationship with ETF issuers particularly the ability to ask those issuers to redeem/create new ETF shares in order to achieve its business plans.

### 10.6.3 Loss of key staff

The Firm believes the loss of key persons to competitors will occur at some point as this is the nature of the trading business. The firm pays competitive remuneration and offers other incentives to stay. However, it believes, from its past experience, the number of clients likely to be lost will not be significant. It is anticipated that the departing trader will be replaced by another with similar experience or not replaced, resulting in a cost saving broadly equivalent to the loss of revenue.

### 10.6.4 Outsourcing risk

BFIN outsources some operations to other members of the Bluefin group but can take over those functions in the event that such action were ever to become necessary. BFIN does not outsource activities other than trade reporting, which is outsourced to a major service providor in the industry.

## 10.7 Insurance Risk

The Firm does not underwrite any insurance policies. The Firm believes that its insurance cover is appropriate and the insurers are good credit risks. Insurance coverage is thoroughly checked and reviewed annually.

## 10.8 Concentration Risk

Concentration risk is the risk that arises from exposure to any one counterparty or group of related counterparties. BFIN does have considerable exposure to its clearers but it has a robust process for the selection and monitoring of its clearers and is satisfied that this exposure is managed properly.

## 10.9 Securitisation Risk

Securitisation risk is the risk arising from residual liabilities where a firm has securities assets.  BFIN does not undertake securitisation and therefore this is not considered to be a risk.

## 10.10 Pension Obligation Risk

BFIN operates defined contribution pension schemes and does not bear the risk of future pension obligations inherent in a defined benefits scheme.