

# ROSENBLATT

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## EUROPE

### PILLAR III DISCLOSURE

#### **Material Risks, Capital Resources and Pillar 3 disclosure**

ROSENBLATT EUROPE's ICAAP highlighted several material risks which were explored in close detail: systems risk, key person risk, trader dealing errors, outsourcing risk, Rosenblatt Securities and Goldman Sachs counterparty risk, and Foreign Exchange risk on non-Euro revenue. These are considered in turn below.

ROSENBLATT EUROPE is heavily reliant on the efficiency and effectiveness of its systems. Although the systems are well controlled, any breakdown in those controls could have a serious impact on ROSENBLATT EUROPE's ability to service the client's it has introduced to Rosenblatt Securities Inc., which could lead to the potential loss of client business and a loss of revenue. However, ROSENBLATT EUROPE has fully operational backup systems in place in case of primary system failure. In addition to daily backup tapes stored in a secure location off-site from the OMS/EMS provider, Rosenblatt Securities offers the clients of Rosenblatt Europe the facility to "phone-through" orders in the event that the OMS/EMS solution is unavailable. Data restoration is tested annually by the applications provider and documentary evidence is available to Rosenblatt Europe upon request. In other words ROSENBLATT EUROPE is not reliant on one sole trading system, and sees this risk as having a low residual risk probability and impact. As a consequence and given that the primary impact would be operational and not financial, ROSENBLATT EUROPE does not believe that capital would be an appropriate response to this risk.

ROSENBLATT EUROPE is also dependent on the experience, knowledge and clients of the broking staff Rosenblatt Securities and Mr. Kieron O'Brien as the primary interface for European clients for revenue retention. Whilst no one person is essential, Mr. O'Brien leaving could have a significant impact on revenue and the growth of the business. ROSENBLATT EUROPE continues to look to recruit additional sales personnel to achieve critical mass, and the more sales and/or support staff that joins ROSENBLATT EUROPE, the less the impact on the business one key broker leaving will bring. As well as the retention of key employees, likewise not being able to attract further staff would hamper the expansion and growth of the business- however, by using head-hunters, financial recruiters, and ROSENBLATT EUROPE's own contacts, as well as offering attractive salaries and bonus packages, ROSENBLATT EUROPE believes it has the necessary base to be able to continue to attract the desired level of staff required to meet its business objectives, and therefore sees a low residual risk probability and impact. This risk was considered by ROSENBLATT EUROPE management to be a Pillar II risk and was subject to scenario analysis, but results on this particular risk amounted to ZERO Pillar II capital

ROSENBLATT EUROPE'S capital management is a critical issue and the capital held by ROSENBLATT EUROPE, is sufficient to meet the foreseeable needs in the next financial year. As a company authorized and regulated by the Financial Regulator, it is required under the relevant regulations to maintain sufficient capital to meet its liabilities. ROSENBLATT EUROPE has in excess 10% capital cover in place, as calculated under Pillar 1. Monthly capital adequacy calculations are performed and reviewed to ensure that the required level of capital is maintained and submitted to the Financial Regulator along with supporting detail. The residual risk probability of inadequate capital resources is low; however, this risk was included as a Pillar 2 risk concern. As a result, this risk is included as a Pillar 2 risk.

ROSENBLATT EUROPE places a lot of emphasis on outsourced service providers in order to carry out its business activities. The key areas of outsourcing would be trading systems, clearing and settlement, and exchange market access. If ROSENBLATT EUROPE is not able to have access/functionality to any of these three key areas, this could lead to a loss of revenue, and would impair the growth of the business. In order to counter the risk of failure of the service provider, ROSENBLATT EUROPE operates with more than one solution for each area- for trading systems, ROSENBLATT EUROPE has backup to its primary trading system, Realtick (Townsend Analytics) in the form of Fidessa's EMS system., in addition to the systems available to the traders at Rosenblatt Securities. For clearing and settlement, Rosenblatt Securities uses Goldman Sachs Clearing Services, as well as Merrill Lynch (Rosenblatt Securities has an agency model agreement with GS and ML).

For direct exchange market access (DMA), ROSENBLATT EUROPE operates with more than one provider- Realtick, Fidessa, Bloomberg, Arca. In conclusion, ROSENBLATT EUROPE believes it has sufficient controls in place so that that the residual risk probability of the failure of outsourced service providers is low. The residual impact is also considered to be low given the various options available were an outsource provider to fail to meet its service levels for ROSENBLATT EUROPE. In any case ROSENBLATT EUROPE's senior management does not believe that capital is an appropriate response to this risk as any service provider change will only lead to a slight disruption in operations, and will not impact on trade, so the financial impact, if any, would be minimal. As a result, this risk was not included as a Pillar 2 risk.

Rosenblatt Securities uses Goldman Sachs ("GS") for the clearing and settlement of its exchange and counterparty transactions of the clients introduced to it by Rosenblatt Europe. Rosenblatt Securities has a 'Agency clearing' arrangement with GS, whereby all counterparty and market risk associated with trades executed on behalf of ROSENBLATT EUROPE's client's reside on GS's balance sheet. However, ROSENBLATT EUROPE does appreciate and recognizes that it does have its own counterparty exposure risk with Rosenblatt Securities and GS, in so much as ROSENBLATT EUROPE's clients monthly revenue sits with GS and is remitted to Rosenblatt Securities two weeks after each month-end- i.e. Rosenblatt Securities is exposed to one month of its revenue sitting at the bank account of a third party. Although ROSENBLATT EUROPE recognizes this exposure, it deems it extremely unlikely that GS

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would default given its own robust risk management framework, financial stability and credit rating. As a result, this risk was not included as a Pillar 2 risk.

ROSENBLATT EUROPE executes no client transactions - as a result, this gives ROSENBLATT EUROPE NO exposure to monthly foreign exchange fluctuations on its net revenue. ROSENBLATT EUROPE recognizes no risk on revenue figures depending on exchange rate fluctuations. ROSENBLATT EUROPE believes this risk has no cost impact. Therefore this risk was considered by ROSENBLATT EUROPE management to be a Pillar 2 risk and was subject to scenario analysis, the result being this particular risk amounted to ZERO Pillar 2 capital.

Considering the fact that ROSENBLATT EUROPE is a licensed firm in accordance with the Irish Financial Regulator authorisation rules, its capital resources requirement is determined by the fixed overheads requirement (and not therefore a market, credit or operational risk charge) for Pillar 1 capital purposes. The table below summarises the components of the Pillar 1 and Pillar 2 capital figures for comparative purposes in accordance with ROSENBLATT EUROPE's ICAAP submission.

	<b>Pillar 1</b>	<b>ICAAP</b>
	<b>Minimum Capital</b>	<b>Pillar II Capital</b>
(1) Credit Risk	€Nil	
(2) Market Risk	€Nil	
(3) Fixed Overhead Requirement (FOR)	€35,720	
<b>Higher of (1) +(2) or (3)</b>	<b>€35,720</b>	
<b>Base Capital Requirement (minimum capital floor)</b>	<b>€50,000</b>	
<b>Pillar 1 Total</b>	<b>€50,000</b>	
Pillar 2 Risk 1		€5,000
Pillar 2 Risk 2		NIL
<b>Pillar 2 Total</b>		<b>€5,000</b>
Additional Stress Test Capital		NIL
<b>ICAAP Capital</b>		<b>€50,000</b>
Current Total Capital		€55,000
<b>Surplus</b>		<b>€ 5,000</b>

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### REMUNERATION DISCLOSURE

The remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of Rosenblatt Europe (the firm). The remuneration policy is in line with the business strategy, objectives, values and long-term interests of the firm.

Based on the profile of the Firm we consider we have one business area, with only the managing director having responsibilities that typically fall within EBA's guidance indicating that of senior personnel whose role impacts the risk profile of the Firm.

#### **Parent Company Partners (Board Committee)**

Fixed and variable pay remuneration for the managing director is reviewed, discussed and prepared by the "partners of Rosenblatt Securities Inc., The managing director of Rosenblatt Europe is a member of the managing board of Rosenblatt Europe but not the Parent board committee.

#### **Senior Management**

Fixed and variable pay for senior staff of the firm deemed to be identified staff under the EBS guidelines for Rosenblatt Europe will be presented by the managing director of Rosenblatt Europe to the partners with final decisions made by the board committee. The group remuneration policy provides for a consistent approach for the senior management group in terms of fixed and variable pay, with benefits being provided in line with prevailing local market conditions.

#### **Other employees**

Fixed pay remuneration is determined in line with remuneration and supporting local market conditions.

#### **Key aspects of the remuneration policy for the Managing Director and Identified Staff.**

##### **Base salary**

Base salaries are determined by reference to the relevant peer group of companies and are targeted to be at just above the median level of the peer group. The Board Committee evaluates base salaries for the Managing Director and identified staff and may recommend adjustments to the Partners.

##### **Variable remuneration**

In accordance with the rules of the remuneration policy, variable remuneration components allocated to the Managing Director will be dependent on the overall performance of the firm. The remuneration policy incorporates both a base salary and a performance element into the overall salary for the Managing Director. As from 1 January 2011 all variable remuneration elements paid to the Managing Director under "the firms" remuneration policy will also not exceed 100% of fixed salary.

As such, to comply with the disclosure requirement, we disclose that the total variable allocation, which, for the year to 31 December 2010, for the Managing Director was €Zero.

##### **Discretionary adjustments and claw back**

If any variable component conditionally awarded in a calendar year would, in the opinion of the Board Committee, produce an unfair result due to extraordinary circumstances during the period in which the pre-determined performance criteria have been or should have been achieved, the Board has at all times the power to adjust the value downwards. Furthermore, the Board may recover any variable remuneration awarded on the basis of incorrect financial or other data (claw back).

##### **Compliance and governance**

The Board committee has finalised the remuneration policy to ensure continuing compliance with our remuneration principles, best corporate governance practices, the Banking Code and alignment with the new legislation pursuant to the European Capital Requirements Directive (CRD III). These new rules have become effective as from 1 July 2011. To this end, the Managing Director and Financial Controller have been recognized as "identified staff" within scope of CRD III within the firm.

Without prejudice to our obligations arising from (employment) contracts and only to the extent that CRD III allows this, the variable remuneration elements awarded for services over 2010 shall be paid in accordance with the current remuneration policy. All other variable remuneration elements relating to the period as of 1 January 2011 shall be aligned with the scope of CRD III and in a manner that is appropriate and proportionate to the size of our internal organization and the nature, risk profile and long-term strategy of our business. Recommended adjustments to the remuneration policy based on the assessment of the Partners shall be made with retrospective effect from 1 January 2012.

The Board will regularly conduct a risk analysis with respect to possible outcomes of the adjustments made to the remuneration policy concerning variable remuneration to ensure that it is aligned with CRD III and all other relevant best corporate governance practices, the Banking Code and any future applicable legislation.

**The Board Committee of Rosenblatt Securities Inc. and the Management Committee of Rosenblatt Europe approve these policies & Practices as of 1 January 2011.**