

# 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 does not take principal positions, or does it executes client orders directly, therefore ROSENBLATT EUROPE runs no risk of trader dealing errors. Any impact of these errors caused by poor broker execution at Rosenblatt Securities and/or the misunderstanding of a client order could lead to a loss of revenue, will have no direct impact on the standard invoice received from Rosenblatt Securities on a monthly basis. Additionally filters are put in place on the trading systems, so that there are limits on individual orders and daily volumes. Training programs for any systems are in place when ROSENBLATT EUROPE looks to add new clients to Rosenblatt Securities. The residual risk probability of trading errors is low. As a result, this risk was not 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.

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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 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)	€38,346	
<b>Higher of (1) +(2) or (3)</b>	<b>€38,346</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		NIL
Pillar 2 Risk 2		NIL
<b>Pillar 2 Total</b>		<b>NIL</b>
Additional Stress Test Capital		NIL
<b>ICAAP Capital</b>		<b>€50,000</b>
Current Total Capital		€50,000
<b>Surplus</b>		<b>€ 0,000</b>