

**Blue Mountain Capital Partners (London) LLP**  
**Pillar 3 disclosures**

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**Blue Mountain**  
CAPITAL PARTNERS  
(LONDON) LLP

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The following report covers the period from 1 January 2016 to 31 December 2016.

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#### **1. Introduction**

This report is made in accordance with the Capital Requirements Directive ("CRD"), which came into effect on 1 January 2007. The directive introduced consistent capital adequacy requirements for authorised credit institutions and investment firms across Europe. For UK firms, these rules are laid out in the FCA Handbook. The relevant section of the handbook is the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The capital adequacy framework as set out by the directive consists of three "pillars" as follows:

**Pillar 1** – these are the minimum capital adequacy standards to which firms must adhere.

**Pillar 2** – firms are required to undertake an internal capital adequacy assessment process ("ICAAP") in order to determine whether additional capital is required in relation to the risks the firm faces.

**Pillar 3** – these are the disclosure requirements required by all firms subject to the CRD. Blue Mountain Capital Partners (London) LLP (the "LLP") makes these disclosures on an annual basis; however, the members of the LLP (the "Members") will consider whether it may be necessary to make more frequent publication where appropriate.

#### **2. Background to the Firm and Scope of the Directive**

The LLP is a Limited Liability Partnership incorporated in England & Wales and is based in London, United Kingdom. It provides investment advisory services to a single client, its parent entity BlueMountain Capital Management, LLC ("BMCM"). Its principal activity is to provide investment advisory services.

For the purposes of the prudential requirements for the period under review, the LLP is categorised as a BIPRU firm. The LLP has permission to manage and provide advice on investments as well as arranging and making deals in investments.

The information contained in this document has not been audited by the LLP's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgment regarding the LLP.

### **3. Corporate Structure**

The LLP is majority owned by its corporate member BMCM. The LLP is making this disclosure on an individual basis and as such the disclosure does not apply to BMCM, any investment funds managed by BMCM, or any of their affiliates, which are exposed to different risks.

### **4. Capital Resources**

During the period 1 January 2016 to 31 December 2016, the LLP complied with all of the FCA capital requirements.

#### **Pillar 1 Capital**

As the LLP is a BIPRU firm, its capital requirement is the higher of:

- a) the Base Capital Resources Requirement of €50k;
- b) the sum of its Credit Risk Capital Requirement and Market Risk Capital Requirement;  
or
- c) the Fixed Overhead Requirement.

#### Credit Risk Capital Requirement

The Credit Risk Capital Requirement is the sum of:

- a) credit risk capital component;
- b) counterparty risk capital component; and
- c) concentration risk capital component.

The LLP does not hold any trading book positions and, given the relationship with BMCM, is deemed to not have a counterparty nor concentration risk capital component.

The LLP calculated its credit risk capital component as £2,460,561 based on its audited accounts as at 31 December 2016.

#### Market Risk Capital Requirement

The LLP does not hold any principal positions or any assets for clients. It holds receivable cash positions and potentially other miscellaneous assets denominated in foreign currencies on its balance sheet. The LLP calculated its Market Risk Capital Requirement as £27,435 based on its audited accounts as at 31 December 2016.

#### Fixed Overhead Requirement

The LLP's Fixed Overhead Requirement is calculated in accordance with GENPRU 2.1.53 to GENPRU 2.1.59. This requirement is £2,970,774 based on its audited accounts for the year ended 31 December 2016.

#### Pillar 1 Requirement

The FCA Pillar 1 requirement is £2,970,774 representing the Fixed Overhead Requirement which is higher than the Base Capital Resources Requirement and the Credit plus Market Risk Capital Requirement.

The table below shows the breakdown of the LLP's total available capital as at 31 December 2016.

	<b>£ as at 31 December 2016</b>
<b>Tier One Capital</b>	22,092,904
<b>Deductions from Tier One Capital</b>	-
<b>Tier Two Capital</b>	-
<b>Deductions from Tier Two Capital</b>	-
<b>Total Tier One and Tier Two Capital</b>	22,092,904
<b>Deductions from Tier One and Tier Two Capital</b>	-
<b>Tier Three Capital</b>	-
<b>Deductions from Tier Three Capital</b>	-
<b>Total Capital Resources</b>	22,092,904
<b>Capital Resource Requirement</b>	2,970,774
<b>Percentage of Capital Resources Against Requirement</b>	743.68%
<b>Total Capital Excess</b>	19,122,130

## **Pillar 2 – ICAAP**

Under Pillar 2 of the FCA's capital requirements, the LLP has undertaken an assessment of the adequacy of capital based on all risks to which it is exposed. This was assessed in its ICAAP.

As part of the ICAAP, the LLP considered risks to capital as well as an assessment of costs to wind down the business. The LLP's total Pillar 2 requirement is currently, and expected to be for the foreseeable future, the sum of the Pillar 1 requirement, wind down calculation of £940,001 and the probability adjusted cost associated with the risk of an unforeseen regulatory breach of £30,000. The total ICAAP capital requirement at 31 December 2016 therefore totaled £3,940,775.

The ICAAP is reviewed at least annually, but the Members will consider whether it may be appropriate to make more frequent assessments where appropriate.

This analysis concluded that the LLP has adequate capital to withstand unexpected losses arising from the risks identified.

## **5. Capital Adequacy - Compliance with BIPRU Rules**

For the purposes of the prudential requirements the LLP is a BIPRU firm.

### **BIPRU 3 – Standardised Credit Risk**

The LLP has adopted the simplified approach to credit risk calculations and calculates 8% of the risk weighted exposure amounts.

### **BIPRU 6 - Operational Risk**

The Operational Risk Capital Requirement is not applicable to the LLP under Pillar 1 as it is a Limited Licence firm. However, the LLP does have operational risks which have been considered as part of its Pillar 2 assessment.

### **BIPRU 7 – Market Risk**

The LLP is subject to market risk in the form of foreign exchange risk on its amounts receivable, cash balances and any other assets denominated in foreign currencies. Its market risk capital requirement is calculated as 8% of these assets.

### **BIPRU 10 – Concentration Risk**

The LLP does not have a trading book and, given consideration to the relationship with BMCM, is not required to calculate a concentration risk capital component.

## **6. Risk Measurement and Management**

The Members determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the firm's governance arrangements along with the design and implementation of a risk management framework that recognises and mitigates the risks that the business faces.

The Members manage the LLP's business risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim of operating a defined and transparent risk management framework. These policies and procedures are updated as required.

The Members have identified that the following risks are the main areas of risk to which the LLP is exposed:

### *Operational Risk*

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The LLP seeks to minimize operational risk through an internal control framework. The most significant operational risks facing the LLP are risk associated with the recruitment and retention of quality personnel, risk of a catastrophic systems failure, and breaches of legal and regulatory obligations leading to fines.

### *Concentration Risk*

The LLP has considered the possibility of losing its only customer, BMCM. If such a risk were to materialise, the LLP would go into orderly wind down, a process which we consider would be the current level of capital held and is contemplated as part of the ICAAP. Furthermore, as the LLP is BMCM's subsidiary, it would expect to be notified at least 90 days in advance of any such termination plans.

### *Business Risk*

Business risk is defined as the risk of loss arising from the LLP's business and operations and may result from internal sources such as generating poor investment advice or external sources such as changes to the economic environment. The most significant business risk facing the LLP is poor performance of investment funds sponsored by BMCM, the LLP's sole client, leading to investor redemptions.

### *Credit Risk*

The LLP follows the simplified standard approach to credit risk. The LLP has a single client, BMCM. Due to the control relationship with BMCM, we do not consider this credit risk to be material for purposes of this disclosure.

### *Market Risk*

The LLP is subject to market risk in the form of foreign exchange risk on amounts receivable, cash balances and other assets denominated in foreign currencies.

### *Liquidity Risk*

Liquidity risk is defined as the inability to meet financial obligations as they become due. The LLP maintains robust processes designed to ensure sufficient surplus cash to meet its working capital requirements and other regular obligations.

The LLP is subject to the wind down analysis and is not required to calculate an operational risk capital charge.

As of 31 December 2016, the LLP's capital resources for regulatory purposes were as follows:

	£'000
Eligible LLP capital	1,167
Members reserves	<u>20,925</u>
Total capital resources	22,092

## **7. Remuneration Disclosures**

The LLP is authorized and regulated by the Financial Conduct Authority as a BIPRU firm. Pillar 3 disclosure provision in respect of remuneration policies are set out in BIPRU 11.

The LLP has remuneration policies in place designed to ensure that the LLP complies with the Code, with compensation arrangements which:

- 1) Are consistent with and promote sound and effective risk management;
- 2) Do not encourage excessive risk taking
- 3) Include measures to avoid conflicts of interest; and
- 4) Are in line with the LLP's business strategy, objectives, values and long term interests.

Disclosure is made in accordance with the LLP's size and internal organization, and with the nature, scope and complexity of the LLP's activities. The LLP does not have a Remuneration Committee in the UK. The remuneration policy of the LLP is managed and reviewed by BMCM's Compensation Committee.

The total compensation of Remuneration Code Staff is generally structured as a base salary and year-end bonus. The amount of any year-end bonus is entirely discretionary, set by BMCM's Compensation

Committee and is based on a number of considerations, including, among other things, individual performance, business unit performance, firm-wide performance and competitive pay practices and industry benchmarks. The relative weight accorded to each of the factors is entirely discretionary. The payment of any such year-end bonus is subject to various conditions (including mandatory deferral upon reaching certain thresholds) and the amount may be zero under certain circumstances. The total remuneration awarded to the LLP's Code Staff during the financial year ending on December 31, 2016 was £10,828,488.

UK Modern Slavery Act

No steps have been taken to ensure that the business and supply chains are free from slavery and human trafficking.