



**BlackBee**  
INVESTMENTS

# CAKID

Client Assets Key Information Document



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### Introduction

The manner in which BlackBee Investments handle your assets is governed by the Client Asset Regulations (SI No 104 of 2015) (the "Regulations") issued by the Central Bank of Ireland. In addition the Central Bank has issued guidance on the implementation of the Regulations. These documents can be found on the Central Bank Website at the following web address:

#### WEBLINK

<http://www.centralbank.ie/regulation/ClientAssetsandInvestor-Money/Client%20Asset%20Regulations/Pages/default.aspx>

This document summarises the Regulations, Guidance and the procedures we undertake to ensure that your assets are held in as safe and as secure a manner as possible.

You are advised to read this document in conjunction with the firm's terms of business, prior to signing the relevant agreement with BlackBee.

The primary purpose of the guidance issued by the Central Bank of Ireland is to assist firms in complying with the Regulations. The guidance however, does not purport to be legal advice or a legal interpretation of the Regulations.

### Key Principles of the Client Asset Regulations

The purpose of the client asset regime is to regulate and safeguard the handling of client assets. It is important to note that it can never fully eliminate all risks some of which are identified below.

#### The Key Principles of these Regulations require that:

- Client's assets are segregated from the firm's assets through registration of client's assets in designated client accounts with the relevant institution holding the assets;
- BlackBee Investments ensures the accuracy of both our records and those of the institutions holding the assets through regular reconciliations and calculations;
- BlackBee Investments inform you and where relevant obtain your consent to the manner in which your assets are held;
- BlackBee Investments have policies and procedures which are clearly documented to ensure that a risk based approach is adopted by the firm to safeguarding your assets.

### What are considered Client Assets under the Regulations

#### Client Assets include both

(i) Client Funds: Any money, to which you are beneficially entitled, which we have received from you or on your behalf. It includes cash, cheques or other payable orders, current and deposit accounts including pledged accounts you may have.

(ii) Client Financial Instruments: Any financial instrument held by us on your behalf including any held with a nominee

#### It is important to note that the Client Asset Regulations apply where:

(i) A cheque or other payable order is received by the firm except where it is payable to a third party;

(ii) Interest is received where it has been agreed in writing that it is payable on your client funds;

(iii) Margin has been received in respect of margined transactions unless full ownership has been passed to the firm in line with (ii) below;

(iv) A cheque which has been sent to you but has not been cashed.

#### It is important to note that the Client Asset Regulations do not apply where:

(i) Funds or financial instruments have been received in respect of activities which are not regulated financial services

(ii) You have transferred full ownership of funds or financial instruments to cover or secure present or future, actual or contingent or prospective obligations;

(iii) We receive a cheque or other payable order from you or on your behalf payable to a third party and we transmit that to the third party;

(iv) Funds are due and payable to the firm in accordance with our terms of business;

(v) Cheques or other payable order received from you on your behalf are not honoured by the bank;

(vi) Funds have been paid to you or a nominated third party (within the limited circumstances such instructions can be undertaken). Please note that payments to third parties can only be done on written instruction from you. Completion of an order or application form is considered a request to pay a third party;

(vii) Financial instruments are registered in your own name and we are not providing safe custody.

Clients should additionally note that the values assigned to your investments are not covered by these Regulations

## How Client Assets are held

Client Assets are never held directly by BlackBee Investments.

Client assets are held with the following institutions:

- (i) An authorised credit Institution (i.e. a regulated bank);
- (ii) A nominee company
- (iii) An eligible Custodian

All client asset accounts are clearly designated as "Client Asset Accounts" in both our internal records and the records of any third party institution where the assets may be held.

### Client Funds

Funds received are lodged to a Client Asset Account with either a bank or eligible custodian.

The funds are lodged to an account in the same currency as they are received. Our preference is to receive funds by way of electronic transfer from clients. To facilitate this details of our client asset bank account is provided to you.

Client funds held with a bank are generally held in a pooled client account. This means that a number of client's funds are held in the same client asset account with the bank. However the BlackBee Investments maintain detailed records identifying the amount being held for each client in the account.

### Client Financial Instruments

Financial instruments are held with an eligible Custodian through a nominee firm and designated as a "Client Asset Account" at the Custodian.

The third parties with whom client assets may be held are set out in Appendix 1.

## Safeguarding Client Assets

Client Assets may be held for the account of BlackBee Investments or a nominee firm with third party institutions such as banks and eligible custodians.

Financial instrument may be held outside the jurisdiction of Ireland. It is important to note that where assets are held outside the Irish jurisdiction:

- (i) the Client Assets Regulations applicable may differ to those applicable within this state.
- (ii) the Investment Compensation scheme in operation in Ireland will not apply to any default by the foreign custodian.

Transactions in respect of your assets may only be undertaken by the institutions based on an instruction from BlackBee Investments. The principal risks associated with holding your assets in this manner include exposures relating to:

- (i) Liquidation / Failure of the party holding your assets;
- (ii) Negligence or the perpetuation of a fraud by persons employed by either this firm or the institution holding the assets;
- (iii) Misappropriation of your assets;

BlackBee Investments endeavour to minimise these risks by:

- Undertaking assessments, as set out below, of institutions with whom your assets are held
- Having written confirmation, in line with the Regulations, from these institutions that your assets will be segregated from this firm's and will be held in separately designated Client Asset Accounts.
- Undertaking regular reconciliations of the firm's records with those of the institutions and following up any differences in a timely manner.
- Undertaking daily calculations of the amounts held for clients as per our records with the amount recorded as being in our client asset accounts

- Ensuring instructions on your account are passed to the institutions by appropriately authorised members of staff
- Ensuring financial instruments are registered as outlined above
- Ensuring adequate oversight of your assets is maintained by this firm through appropriate documented procedures and controls

In selecting relevant institutions to hold client assets on behalf of the firm's clients we undertake an assessment, on a semi-annual basis, covering:

- (i) The institution's credit rating (where available)
- (ii) Known service levels for the institution (where we have past experience with the institution)
- (iii) Confirmation that it is regulated by the Central Bank of Ireland and
- (iv) That it is a member of the Investor Compensation Company in Ireland
- (v) Whether the institution is independent of the firm.
- (vi) What clients rights would be in the event of insolvency of the institution

Where the institution is not in this jurisdiction a similar assessment is undertaken. Particular attention is paid to the establishing the relevant regulations and compensation scheme.

Client Assets will only be lodged with an institution where the firm's risk committee has been satisfied on all of the above criteria.

Once an institution has been selected to hold Client Assets a facilities letter confirming specified details, as set out in the Regulations, will be obtained from the institution. No Client Assets will be lodged prior to receipt of the facilities.

## Administration of Client Assets at BlackBee

In accordance with the Regulations and in adherence to the guiding principles of client asset segregation, client assets are administered as follows.

1. Client monies are made payable to BlackBee Investments Client Asset Account and are lodged to a segregated and designated 'Client Asset' account with a nominated Bank. This ensures Client Assets are at all times segregated from the assets of BlackBee Investments;
2. BlackBee Investments reconciles and records client monies and instructs their transfer to an eligible Custodian. This ensures that client assets are clearly identified and segregated from those of BlackBee Investments, the Bank and the Custodian.
3. In accordance with the Client Asset Requirements, Client Assets at the Custodian are registered in the name of an eligible nominee firm or in certain circumstances share register;
4. Upon client instruction, maturity or early redemption of Client Assets the Custodian transfers client monies to the designated 'Client Asset' account at the Bank and BlackBee Investments instructs funds back to clients.

## What is a Nominee Structure?

In accordance with the Client Asset Requirements, Client Assets at the Custodian are registered in the name of an eligible nominee. This ensures Client Assets are held separate to the assets of BlackBee Investments at all times.

A nominee structure is a widely used method of holding client assets among investment firms. In a nominee structure the legal owner is the nominee company, with the client being the beneficial owner. Reasons for using a nominee structure largely include the efficient and practical processing of purchasing, holding and selling securities.

## Internal and External Controls to safeguard client assets

### Internal Oversight

BlackBee Investments are subject to the following Internal Oversight:

1. Effectiveness of Systems and Controls: We are required to monitor and evaluate the adequacy and effectiveness of our internal systems, controls and arrangements in relation to the CAR. The firm maintains a permanent and effective compliance function with a dedicated Compliance Officer. The firm also has a Head of Client Asset Oversight. Both the Compliance Officer and the Head of Client Asset Oversight report to Senior Management and the Board of Directors frequently in this regard.
2. Independent Compliance Function: In relation to the CAR, the Compliance Department carries out regular reviews of the procedures and processes in place to safeguard client assets. This includes the regular review of client asset reconciliations performed by the Operations Team that are independent of both the Front Office and Compliance;
3. Other Reviews: We routinely seek external advice from large, reputable firms – both Legal and Audit on new developments in regulation, law and information security to ensure we are in line with industry best practice.

### External Oversight

We are subject to the following External Oversight:

1. Audit of compliance with our obligations under CAR: We have engaged the services of one of the "Big 4" audit firms to examine the firm's compliance with the CAR requirements. The Client Assets Examination is performed on an annual basis.

## Corporate Governance Oversight

In addition to having dedicated compliance and risk functions, the firm also has in place robust Corporate Governance oversight. The Head of Compliance chairs the Compliance Committee and reports regularly to the Board of Directors. The Chief Risk Officer chairs the Risk Committee and also reports regularly to the Board. The Board includes experienced Executive and non-Executive Directors.

## If BlackBee Investments were to become insolvent, what would happen client assets?

In this scenario, due to the segregated manner in which client assets are held as described above, the firm's creditors would not have recourse to client assets when filing their claim against BlackBee Investments. Additionally, the business model of BlackBee Investments means the firm never takes any proprietary positions or has large numbers of creditors.

### What Custodians does BlackBee Investments use?

BlackBee Investments uses Citibank N.A. (Citigroup Centre, 25 Canada Square, Canart Wharf, London E14 5LB), which is part of Citigroup, as our global custodian. Citigroup is the trusted custodian of over \$12 trillion in assets globally. We have used Citibank N.A. due to their ownership structure, financial strength and their capabilities in custodian banking. They are one of the largest custodians in the world.

A custodian bank is a specialised financial institution responsible for safeguarding financial assets. All financial transactions require transfer and custody services. Custodian banks are often referred to as global custodians if they safe keep assets in multiple jurisdictions around the world. They normally do this through their own local branches or other local custodian banks. Custodians generally tend to be large and reputable firms.

#### Functions of a custodian bank include:

- Holding in safekeeping assets/securities including stocks, bonds, commodities, cash etc.;
- Arranging settlement of purchases and sales of assets/securities and deliveries in and out;
- Collecting income from assets/securities e.g. interest payments, dividends and tax support and any reclamation;
- Administering corporate actions on assets/securities held e.g. stock splits;
- Effecting deposits and withdrawals.

### What Banks does BlackBee Investments use?

In order to operate our business we need to use a local Irish bank to clear funds before we transfer to our Custodian. This is why investors cannot transfer funds directly to the Custodian. We use Ulster Bank Ireland Limited (1 George's Quay, Dublin 2) as our clearing bank. This is due to their ownership structure and capabilities in business banking. Ulster Bank Ireland Limited are owned by Royal Bank of Scotland Group, which itself is over 80% owned by the British Government. Client funds are held with Ulster Bank for only a short period of time before funds are transferred to our Custodian or returned to investors.

Figure 1: Credit Analysis – Ulster Bank Ireland Limited and Royal Bank of Scotland Group

|                         | Ulster Bank Ireland Limited | Royal Bank of Scotland Group |
|-------------------------|-----------------------------|------------------------------|
| Credit Rating (Fitch)   | BBB+                        | A                            |
| Credit Rating (Moody's) | Baa3                        | Baa2                         |
| Credit Rating (S&P)     | BBB+                        | BBB+                         |
| Fitch Outlook           | Neg                         | Neg                          |
| Moody's Outlook         | Neg                         | Neg                          |
| S&P Outlook             | Neg                         | Neg                          |
| CDS Level               | n/a                         | 66.6                         |
| Tier 1 Capital Ratio    | 11.5%                       | 13.1%                        |

Source: Bloomberg, BlackBee Investments. October 2015

Figure 2: Largest Global Custodian Banks

| Rank | Bank                                 | Total Custodied Assets (\$ Trillion) |
|------|--------------------------------------|--------------------------------------|
| 1    | Bank of New York Mellon Corp         | 27.10                                |
| 2    | J.P. Morgan                          | 17.87                                |
| 3    | State Street Corp.                   | 16.39                                |
| 4    | Citi                                 | 12.47                                |
| 5    | BNL Paribas Securities Services      | 6.37                                 |
| 6    | HSBC Securities Services             | 5.43                                 |
| 7    | Mitsubishi UFJ Financial Group       | 5.35                                 |
| 8    | Northern Trust Corp.                 | 4.56                                 |
| 9    | Societe Generale Securities Services | 4.19                                 |
| 10   | Caceis Investor Services             | 3.20                                 |
| 11   | Sumitomo Mitsui Trust Group          | 3.08                                 |
| 12   | Brown Brothers Harriman & Co.        | 3.07                                 |
| 13   | RBC Investor Services                | 2.75                                 |
| 14   | SEB                                  | 0.77                                 |
| 15   | Pictet & Cie                         | 0.38                                 |

Source: Institutionalinvestor.com, 2012  
Ranked by Total Assets under Custody

## APPENDIX 1

Third Party Institutes with whom client assets may be held;

| <b>Trading Name</b> | <b>Registered Address</b>                       | <b>Internet Address</b>                                    |
|---------------------|---|--|
| <b>Ulster Bank</b>  | Ulster Bank Group Centre, Georges Quay, Dublin2 | <a href="http://www.ulsterbank.com">www.ulsterbank.com</a> |
| <b>Citi</b>         | Camden Square, Canary Wharf, London, E14 5LB    | <a href="http://www.citibank.co.uk">www.citibank.co.uk</a> |

The above list of third parties may be subject to change over time. The most current list is included in our terms of business which is also available on our website, [www.blackbee.ie](http://www.blackbee.ie)

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