

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10896 / December 8, 2020

INVESTMENT ADVISERS ACT OF 1940
Release No. 5642 / December 8, 2020

ADMINISTRATIVE PROCEEDING
File No. 3-20162

In the Matter of

**BLUECREST CAPITAL
MANAGEMENT LIMITED**

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933 AND SECTIONS
203(e) AND 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940, MAKING
FINDINGS, AND IMPOSING REMEDIAL
SANCTIONS AND A CEASE-AND-DESIST
ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against BlueCrest Capital Management Limited (“BlueCrest” or “Respondent”).

II.

In anticipation of the institution of these proceedings, BlueCrest has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, BlueCrest consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and BlueCrest's Offer, the Commission finds¹ that:

Summary

1. These proceedings arise from the management of a proprietary hedge fund, BSMA Limited ("BSMA"), by previously registered investment adviser BlueCrest Capital Management Limited, f/k/a BlueCrest Capital Management LLP. From October 2011 through December 2015 (the "Relevant Period"), BlueCrest engaged in a course of conduct stemming from its management of BSMA that was detrimental to investors in BlueCrest's flagship client hedge fund, BlueCrest Capital International ("BCI").

2. First, in 2011, BlueCrest created a leveraged proprietary fund, BSMA, to trade the personal capital of BlueCrest personnel. Like BCI, BSMA's largest capital allocations were always to Rates and Relative Value ("RV") strategies. BlueCrest transferred Rates and RV traders, who had been trading for BCI, to BSMA, and hired new traders who were eligible to trade for either fund to trade for BSMA only. During the Relevant Period, a majority of BlueCrest's highest-performing Rates and RV traders were allocated to BSMA.

3. Second, BlueCrest replaced the capital allocations of the transferred traders by allocating a substantial amount of BCI capital to a semi-systematic trading system – at its core, a replication algorithm – called Rates Management Trading ("RMT"). RMT tracked some of the trading activity of a subset of BlueCrest's live Rates and RV traders but generally underperformed those traders. From 2012 through 2015, BCI's capital allocations to RMT ranged from approximately 17 percent to 52 percent of BCI's total allocated capital.

4. Third, BlueCrest failed adequately to disclose, and made misstatements and omitted to state facts necessary to not render other statements misleading concerning, BSMA's existence, the movement of traders, RMT, and related conflicts of interest, to BCI investors and/or prospective investors. BlueCrest also failed to disclose certain material facts about RMT to BCI's independent directors.

5. BlueCrest also failed adequately to implement policies and procedures reasonably designed to prevent violations of the Advisers Act and rules thereunder in relation to the conduct summarized above.

6. Based on the foregoing and as detailed below, BlueCrest violated Sections 17(a)(2) and (3) of the Securities Act and Sections 206(2) and 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 thereunder.

¹ The findings herein are made pursuant to BlueCrest's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Respondent

7. **BlueCrest Capital Management Limited** (“BlueCrest”) is a St. Helier, Bailiwick of Jersey, limited company with its principal place of business in St. Helier. Before July 2014, BlueCrest did business as BlueCrest Capital Management LLP. BlueCrest was a Commission-registered investment adviser from November 2008 until August 2018. During the Relevant Period, BlueCrest and/or its affiliates also had offices in New York, Boston, London, and Geneva, among other international locations. BlueCrest managed many investment vehicles during the Relevant Period, and received advisory fees from BCI for managing that fund. In its March 30, 2016 Form ADV, Part 1, just after the Relevant Period, BlueCrest reported regulatory assets under management (“AUM”) of approximately \$59.8 billion. BlueCrest announced its intention to stop managing funds with outside investors as of December 2015, but continues to manage BSMA.

Other Relevant Entities

8. **BlueCrest Capital International Master Fund Limited** was an unregistered Cayman Islands-based fund, organized in a master-feeder structure with an offshore unregistered feeder fund, incorporated in the Cayman Islands, called BlueCrest Capital International Limited, and a domestic unregistered feeder fund, organized under Delaware law, called BlueCrest Capital L.P. These unregistered funds are known collectively as “BCI.” Throughout the Relevant Period, BlueCrest offered and sold interests in BCI to external investors. BCI’s investors included pension funds for American retirees. BlueCrest primarily allocated BCI’s capital to Rates and RV trading strategies. As of July 2013, BCI’s assets totaled approximately \$13.5 billion, or nearly 40 percent of BlueCrest’s total AUM. As of December 2015, BCI’s assets were \$2.2 billion following investor redemptions. The management of BCI was formally transferred to a liquidator after the Relevant Period and following BlueCrest’s decision to stop managing external client assets.

9. **BSMA Limited f/k/a BlueStar Master Fund Limited** is a proprietary unregistered Cayman Islands-based fund, organized in a master-feeder structure with an offshore unregistered feeder fund, incorporated in the Cayman Islands, called BS Investment Fund Limited f/k/a BlueStar Feeder Fund Limited. These unregistered funds are known collectively as “BSMA.” Throughout the Relevant Period, both BSMA and BCI primarily allocated their capital to Rates and RV strategies, although both funds employed some additional trading strategies. BSMA is a BlueCrest proprietary fund that manages personal capital of BlueCrest personnel. As of December 31, 2015, BSMA had approximately \$1.95 billion in net assets. BlueCrest continues to manage BSMA today.

Background

10. During the Relevant Period, BlueCrest’s governing body was the Executive Committee (the “ExCo”), which was composed of BlueCrest’s most senior executives. The ExCo generally met on a monthly basis and reviewed a lengthy slide deck containing information about all aspects of BlueCrest’s trading and operations.

11. During the Relevant Period, BCI had a board of directors that was responsible for oversight of BCI for the benefit of investors. The board included three independent directors who also served as BSMA directors.

12. The ExCo conceived of the idea of forming BSMA during the spring of 2011, and launched BSMA in October 2011 with assets of \$500 million. Contemporaneous minutes of ExCo meetings reflect that the creation of a proprietary fund was intended to assist in attracting and retaining the employment of traders and other senior managers. Throughout the Relevant Period, BSMA was 93 percent owned by the ExCo members. Unlike BlueCrest's other trader compensation awards, which had deferral periods of up to three years, the prospectus for BSMA's feeder fund provided for regular redemption rights on 30 days' written notice, subject to director consent, and many BSMA investors redeemed more than they contributed.

13. During the Relevant Period, the ExCo made all decisions concerning the movement of traders from BCI to BSMA, the hiring of new traders to trade for BCI or BSMA, and the use of RMT. In addition, the ExCo determined or provided guidance with respect to BlueCrest's disclosure practices concerning BSMA, trader assignments, RMT, and related conflicts of interest.

14. In the weeks prior to BSMA's launch, ExCo members considered disclosure regarding BSMA to investors and prospective investors in BCI, but BlueCrest ultimately failed adequately to disclose BSMA to investors, as discussed below. The ExCo instructed personnel in BlueCrest's Investor Relations ("IR") Department not to proactively discuss BSMA with investors. BCI's independent directors, who also sat on BSMA's board, received regular information about BSMA, and were also provided with information about trader assignments. As discussed below, other material facts were not disclosed to the independent directors.

BlueCrest's Allocation of Traders to BSMA

15. Over the Relevant Period, BlueCrest transferred almost half (48 percent) of BCI's Rates and RV traders from BCI to BSMA.

16. When launching BSMA in October 2011, BlueCrest drew BSMA's initial pool of traders primarily from BCI. Specifically, BlueCrest transferred six traders from 100 percent BCI to 100 percent BSMA, and also assigned a single capital allocation, shared by two newly hired traders, entirely to BSMA. BlueCrest further created a new joint capital allocation for two senior Rates Desk managers and split that allocation 50:50 between BCI and BSMA.

17. After BSMA's launch, BlueCrest continued transferring high-performing Rates and RV traders from BCI to BSMA, and assigned many of its most promising newly hired traders to BSMA throughout the Relevant Period, while others went to BCI. From October 2011 through June 2015, BlueCrest reassigned 21 Rates and RV traders from 100% BCI to 100% BSMA; split the capital allocations of 5 Rates and RV traders, who previously traded only for BCI, 50:50 between BCI and BSMA; and allocated 21 newly hired Rates and RV traders, who were eligible to trade for BCI, exclusively to BSMA.

18. BlueCrest had a conflict of interest in managing a proprietary fund, BSMA, whose primary trading strategies overlapped with those of BCI. That conflict was exacerbated by the fact that the ExCo members had a larger ownership interest in BSMA than BCI. Their 93% ownership interest in BSMA peaked at \$1.79 billion during the Relevant Period, compared to approximately \$619 million in BCI. As discussed below, BlueCrest’s disclosure to investors and prospective investors of the possibility of generic conflicts of interest, while omitting to disclose the actual existence of this specific conflict, conveyed an inaccurate impression.

19. Before BSMA’s launch, the ExCo had access to hypothetical backtest results showing that transferring certain subsets of traders from BCI to BSMA could have a negative effect on BCI’s returns. Although BlueCrest did not implement any of the precise subsets, many, but not all, of the traders in the backtests were subsequently transferred from BCI to BSMA.

20. BlueCrest also received contemporaneous information indicating that high-performing traders predominantly traded for BSMA instead of BCI. ExCo members and other senior BlueCrest personnel received daily, weekly, and monthly reports providing detailed performance metrics, including profit and loss (“P&L”), returns, and Sharpe ratios, for each Rates and RV trader. Those internal reports reflected that traders assigned to BSMA were a majority of the ‘top traders’ in terms of year-to-date (“YTD”) P&L, YTD returns, and return on capital. P&L was one of the key performance metrics at BlueCrest because it was a factor in determining the size of a trader’s capital allocation, and traders received a percentage of their P&L as incentive compensation. A trader’s P&L was also a factor in determining whether and how much he or she could personally invest in BSMA and, more fundamentally, whether he or she could remain employed at BlueCrest.

21. Despite this data, BlueCrest failed to cease transferring high-performing Rates and RV traders from BCI to BSMA. Moreover, while some new traders were introduced to BCI over the Relevant Period, BlueCrest failed to reassign any previously transferred traders back to BCI.

22. Contemporaneous communications show that BlueCrest failed adequately to consider the effects on BCI of their allocation of high-performing traders to BSMA, and focused instead on the positive benefits to BSMA. For example, in May 2012, BlueCrest decided to transfer a trader from BCI to BSMA after internal discussion of his consistently positive P&L. In a March 2013 internal discussion, ExCo members discussed the fact that a newly hired trader had only positive P&L at his previous employer, and decided to place that trader in BSMA instead of BCI.

BlueCrest’s Implementation of RMT in BCI

23. BlueCrest replaced traders transferred from BCI to BSMA with a new semi-systematic, algorithmic trading program – RMT – that sought to replicate the risk profile and profits of live Rates and RV traders across the entire BlueCrest platform on a T+1, *i.e.*, next-day, basis. RMT had lower P&L and greater volatility than the corresponding live traders and, therefore, underperformed them. With the exception of 2013, when RMT’s P&L in BCI was

essentially flat, during the Relevant Period, RMT generated positive P&L for BCI; however, RMT's P&L was consistently less than that of the live traders whom RMT tracked.

24. Without RMT, BlueCrest likely would not have been able to move as many traders in so short a time period while maintaining BCI's overall level of allocated capital. BlueCrest decreased the overall amount of capital allocated to live BCI traders while increasing the amount of capital allocated to RMT in BCI over the Relevant Period. Specifically, the capital that BlueCrest allocated to live BCI traders decreased from \$12.5 billion in January 2012 to \$7.4 billion in June 2015; and the capital that BlueCrest allocated to RMT increased from \$0 to \$7.2 billion during the same period. At the same time, BlueCrest increased the capital allocated to live BSMA traders from \$4.45 billion in January 2012 to \$22.1 billion in June 2015.

25. The ExCo monitored BCI's Over Allocation Ratio (the "OAR"), defined as the total allocated capital in BCI divided by its AUM, to ensure that there was a consistent level of risk in BCI relative to its AUM at any given point in time, and provided BCI's independent directors with regular updates concerning this metric. BCI's OAR remained generally consistent during the Relevant Period. However, the use of RMT in BCI, as well as the transfer of traders from BCI to BSMA, affected the nature and quality of the risk attributable to the underlying capital allocations used to calculate the OAR. For example, the ExCo was able to manage BCI in accordance with the long-term range of its OAR by virtue of BCI's large capital allocations to RMT.

26. BlueCrest initially deployed RMT exclusively in BCI. Starting in July 2012, BlueCrest allocated one-third to half of new RMT trading risk to BSMA. June 2013 was the market event widely known as the "Taper Tantrum" in which U.S. Treasury yields surged following the Federal Reserve's announcement of future tapering of its quantitative easing policy. After RMT incurred significant losses during the "Taper Tantrum," BlueCrest ceased deploying RMT in BSMA and allotted 100 percent of new RMT trading risk to BCI from July 2013 through December 2015.

27. Throughout the Relevant Period, RMT was BCI's largest capital allocation with limited exceptions. BCI's capital allocations to RMT ranged from approximately \$1.87 billion to approximately \$7.89 billion which represented 17 percent to 52 percent of BCI's total allocated capital.

28. RMT gave rise to a conflict of interest because BlueCrest could retain a greater percentage of performance fees generated by RMT than performance fees generated by live Rates and RV traders. Whereas BlueCrest paid its live traders incentive compensation out of the performance fees it earned in the amount of 15 to 18 percent of the P&L that the traders generated, less salary and certain costs, it did not pay incentive compensation to traders based on the P&L that RMT generated by replicating their trades. Compensation to RMT Desk personnel, which included a smaller amount of discretionary compensation, was substantially less than that to live traders.

RMT's Performance Issues

29. During the Relevant Period, RMT generally performed worse than BlueCrest's live Rates and RV traders. RMT was not configured or intended to capture all of the trading activity of all of BlueCrest's live Rates and RV traders because certain strategies and asset classes were unsuited to algorithmic strategies and next-day execution. Instead, through RMT, BlueCrest sought to track the P&L of a Target Portfolio (the "Target Portfolio") that consisted of a subset of BlueCrest's live Rates and RV traders, assigned different percentage weights (0 percent to 200 percent of each trader's actual risk), and with certain strategies and asset classes either excluded or weighted at less than 100 percent. RMT excluded or underweighted some profitable traders, including several who had been reassigned from BCI to BSMA, and many profitable trading activities, including intraday, illiquid, and certain option, equity, and inflation-linked strategies and asset classes because of their unsuitability to this strategy and the RMT process.

30. Initially, BlueCrest's internal reports estimated that RMT's Target Portfolio would seek to capture 70 to 80 percent of the P&L of the live Rates and RV traders included in RMT. In fact, RMT's Target Portfolio generally captured a lesser percentage. From September 2013 through May 2015, for example, RMT's Target Portfolio captured approximately 53 percent of the P&L of the live traders whom RMT tracked.

31. Moreover, RMT's actual P&L was lower than its Target Portfolio P&L (the "Target P&L"), which BlueCrest referred to as "slippage." According to a February 2015 report, to which the ExCo had access, from at least November 2012 through at least January 2015, RMT's actual P&L underperformed its Target P&L by an average \$25 million per month. Earlier versions of this report also indicated that RMT's Sharpe ratio and P&L were below that of live Rates and RV traders.

32. RMT's T+1 trading also contributed to its underperformance compared to live traders. RMT's algorithms picked up the positions of the live traders whom it tracked at market close. It was not the intention for RMT to replicate the Target Portfolio on a trade-by-trade basis given the expense and inefficiency that this would incur, and RMT's algorithms were programmed to make continual trade-offs between precise replication vs. lower execution costs, but often achieved neither. As a result, RMT's actual P&L fell short of its Target P&L and generally incurred greater execution costs than live traders. A November 2012 internal report on RMT's first-year performance noted that RMT's replication was, at times, the equivalent of a three-day lag in trading with each day's lag amounting to an 8 percent loss in P&L, and a two-day lag corresponding to bid/offer slippage.

33. RMT's next-day trading caused RMT to perform especially poorly in volatile markets because RMT waited too long to respond to sudden market moves, as evidenced by the June 2013 Taper Tantrum.

34. RMT was also subject to ongoing model and operational errors. In January 2015, for example, BlueCrest discovered two errors in which RMT's algorithms failed to capture certain FX and bond options, while they did capture the FX and bond futures used to hedge the options. This resulted in a \$28 million reduction in BCI's P&L.

BlueCrest Increased the Capital Allocation of RMT in BCI

35. Throughout the Relevant Period, BlueCrest increased the capital allocation of RMT in BCI despite internal reports reflecting RMT’s performance issues.

36. From March 2012 through May 2013, BlueCrest increased RMT’s capital allocation in BCI from approximately \$2.5 billion to approximately \$3.86 billion, an increase from 19 percent to 28 percent of BCI’s total allocated capital.

37. During the June 2013 Taper Tantrum, RMT experienced losses of approximately \$137 million in BCI and \$166 million in BSMA. In June 2013, RMT’s loss was the largest of any capital unit in both BCI and BSMA by several orders of magnitude. It was also RMT’s worst performance ever in both BCI and BSMA.

38. At the time of the Taper Tantrum, BlueCrest was allocating RMT new trading risk on a 50:50 basis between BSMA and BCI. After the Taper Tantrum and following the losses, at its July 2013 meeting the ExCo decided to cease allocating new RMT trading risk to BSMA and instead allocate 100 percent of new RMT trading risk to BCI. Going forward, BSMA retained only legacy RMT trading positions that were gradually unwound.

39. After the Taper Tantrum, BlueCrest briefly decreased BCI’s capital allocation to RMT, but then began to increase the capital allocation a few months later. In September 2013, BlueCrest doubled BCI’s capital allocation to RMT from approximately \$2.7 billion to approximately \$5.4 billion in October 2013, an increase from 18 to 29 percent in RMT’s share of BCI’s total allocated capital. RMT’s actual monthly P&Ls fell below its Target P&Ls in the months that followed (all figures in \$mm):

Month	RMT Target P&L	RMT Actual P&L	Underperformance	% Target P&L
October 2013	83	42	-41	50.6%
November 2013	15	-8	-23	-153.0%
December 2013	8	-8	-16	-200.0%

40. BlueCrest continued to maintain or increase BCI’s allocations to RMT during the Relevant Period despite additional internal analyses of RMT’s poor performance.

41. The ExCo considered whether to continue to deploy RMT and in what capacity in the wake of RMT’s significant losses during the Taper Tantrum. The minutes of the July 2013 ExCo meeting state that there was discussion of BSMA’s significant cash constraints as a reason for ceasing to operate RMT in that fund, but did not reflect any discussion of whether BSMA should instead maintain a smaller capital allocation to RMT commensurate with its available cash. Nor did the minutes reflect any discussion of the rationale for continuing to operate RMT in BCI, which did not have the same cash constraints as BSMA. The ExCo did not direct BlueCrest personnel to perform any analyses at this time concerning the appropriateness of BCI’s ongoing capital allocations to RMT.

42. On January 20, 2014, BlueCrest personnel told the ExCo that “[w]e made zero [in RMT] last year, from an underlying portfolio that made 620M,” and recommended postponing any further increases to RMT’s allocated capital in BCI until BlueCrest performed tests that could be analyzed and discussed over time. The ExCo considered but ultimately did not act on this recommendation. Instead, BlueCrest increased RMT’s capital allocation from approximately \$5.8 billion in January 2014 to almost \$7 billion in February 2014, an increase from 30 percent to 34 percent in the proportion of BCI’s total allocated capital represented by RMT.

43. In 2014 and 2015, BlueCrest continued to make large capital allocations to RMT despite internal BlueCrest analyses of RMT’s underperformance. For example, in June 2014, an internal BlueCrest report showed that RMT’s “historical slippage” was between 60 to 75 percent since inception, and more than \$198 million from January through June 2014. A May 2015 monthly P&L report for RMT indicated that RMT’s YTD actual P&L underperformed its Target P&L by more than \$116 million. Nonetheless, from June 2014 through May 2015, RMT’s allocated capital in BCI ranged from approximately \$7.6 billion to almost \$7.9 billion, representing 39 percent to 52 percent of BCI’s total allocated capital.

BlueCrest’s Disclosure Failures, Misstatements, and Omissions

44. Investors regularly requested information about all of BlueCrest’s funds, including all of its proprietary funds, BCI’s traders, and BlueCrest’s conflicts of interest. BlueCrest disclosed the existence of other proprietary funds and touted its live traders in BCI. However, it did not mention BSMA’s existence, trader movements, RMT, and related specific conflicts of interest, to prospective and existing investors. BlueCrest also made misstatements concerning these subjects. BCI’s independent directors, who also sat on the BSMA board, also received inadequate disclosure concerning certain material facts about RMT.

45. On March 2012, BlueCrest identified BSMA in Parts 5 and 10 of its Form ADV Part 2A brochure. It then did not include BSMA in its next brochure filed on July 10, 2012, and in all subsequent brochures during the Relevant Period. Similarly, BlueCrest identified BSMA in the private fund section of its Form ADV Part 1 filings on March 30, 2012 and July 10, 2012, but then did not include BSMA in its next filing on July 17, 2012, and all subsequent filings. BlueCrest’s Forms ADV did disclose another proprietary fund during the Relevant Period.

46. Beginning with its 2012 Form ADV Part 2A brochure and contemporaneous disclosure in offering materials for BCI, and throughout the remainder of the Relevant Period, BCI included the following disclosures concerning proprietary funds:

Members of our firm, our affiliates, or any person connected with them may advise, sponsor or manage proprietary investment funds, vehicles or accounts in which only partners, employees, affiliates or other persons connected with our firm may invest ... and that BlueCrest “will allocate resources as it in its sole discretion considers appropriate in managing [its] clients and any relevant proprietary and/or non-proprietary investment funds, vehicles or accounts in accordance with their respective investment objectives and strategies.

47. In December 2012, BlueCrest sent a written notice to investors that asked them to affirm that they had “carefully reviewed and underst[ood] the various risks of an investment in [BCI], as well as the conflicts of interest to which the Fund is subject, as set out in the Fund’s current prospectus.”

48. The generic disclosure that BlueCrest “may” manage proprietary funds would not have adequately alerted investors or prospective investors that BlueCrest actually managed a proprietary fund with a similar trading strategy to BCI. Similarly, references to the “allocat[ion]” of “resources” would not have adequately alerted investors or prospective investors to the fact that BlueCrest was transferring numerous traders from BCI to BSMA. Finally, the Forms ADV and prospectuses failed adequately to disclose the existence of RMT and did not disclose BlueCrest’s specific conflicts of interest with respect to trader transfers and RMT.

49. Prior to 2014, there were no disclosures about BSMA or BlueCrest’s specific conflicts of interest in any of BlueCrest’s due diligence questionnaires, investor letters, investor presentations, marketing brochures, or elsewhere. Members of BlueCrest’s IR Department understood that they were not allowed to proactively disclose BSMA’s existence and were instructed to rely on the generalized disclosures summarized above. BlueCrest also did not disclose trader movements to investors or prospective investors.

50. Prior to 2014, BlueCrest’s due diligence questionnaires (“DDQs”) and marketing literature contained limited references to “quantitative strategies,” but did not disclose that BCI utilized a semi-systematic trading strategy like RMT. After 2014, BlueCrest only disclosed RMT to certain investors as well as to certain consultants that conducted due diligence on behalf of their investor clients and, in some cases, had discretionary authority to subscribe and redeem on behalf of them. BlueCrest incorporated the losses that RMT incurred in BCI during the Taper Tantrum and as a result of the RMT FX and bond option errors in BCI, discussed in paragraphs 34 and 37 above, into monthly performance figures that made no mention of RMT. As a result, the monthly performance figures conveyed the inaccurate impression that live traders, and not RMT, caused those losses.

51. BlueCrest also failed to disclose material facts about RMT to BCI’s independent directors. As late as July 11, 2012, BlueCrest told BCI’s independent directors that RMT was a “project” that was “in the early stages of development,” whereas BlueCrest had in fact been using RMT in BCI since January 2012. Similarly, in July 2013, BlueCrest described RMT to BCI’s independent directors as a “discrete rates trading strategy” when, in that month, RMT’s allocated capital in BCI was approximately \$2.8 billion. In fact, BlueCrest failed to provide any information to BCI’s independent directors concerning RMT’s allocated capital in BCI until October 2015. Moreover, during the Relevant Period, BlueCrest never informed the independent directors about BlueCrest’s conflict of interest in deploying RMT or the fact that RMT underperformed the live traders whom it tracked.

52. BlueCrest touted the exceptional quality of its traders in marketing BCI to prospective investors, but failed to disclose related material facts. For example, BCI’s standard DDQs stated that the trading desk from which BCI draws contained a specified number of

investment professionals, but omitted to disclose the fact that many high-performing traders had been transferred from BCI to BSMA, and that BCI could draw upon the BSMA traders only through RMT, which captured only some of the risk and some of the P&L of some of the BSMA (and BCI) traders.

53. BCI's standard DDQ as of July 2012 also stated that "[t]raders actively manage portfolios and dramatically adjust positions in real time." In fact, as of that month, 24 percent of BCI's total allocated capital was represented by RMT, which executed the positions of some live Rates and RV traders on a T+1 basis.

54. In addition, due diligence consultants covering BlueCrest regularly requested information about all of BlueCrest's funds, including all of its proprietary funds, on behalf of their investor clients. In response, BlueCrest sometimes disclosed the existence of two of its other proprietary funds, but not BSMA. After one consultant asked about potential conflicts of interest related to one of the disclosed proprietary funds, BlueCrest stated that the traders assigned to that fund were distinct from those trading for BlueCrest's client funds, but omitted to mention the existence of the much larger BSMA fund, many of whose traders had been transferred from BCI.

Discovery of BSMA and Investor Redemptions

55. In late January 2014, a due diligence consultant ("DDC1") saw a reference to BSMA for the first time while conducting an on-site examination of BlueCrest. A BlueCrest employee stated that the fund was a "partner retention vehicle" and had an AUM of approximately \$1.5 billion, but did not provide any further information in response to DDC1's questions. Nor did BlueCrest provide answers to certain of DDC1's follow up queries, including those specifically concerning BSMA's traders or historical performance. BlueCrest described BSMA to DDC1 as an internal "managed account," whereas it was a fund with a master-feeder structure and a board of directors.

56. On February 11, 2014, DDC1 published a report to its clients downgrading its BlueCrest rating due to concerns regarding the firm's failure to disclose the fact that BSMA existed. The consultant cited: 1. BSMA's size and the potential conflicts of interest it presented; 2. the possibility that senior management's interests were not aligned with those of BlueCrest's external investors; 3. the possibility that high-performing traders were being allocated to BSMA; and 4. the consultant's lack of confidence that investors were receiving the full benefit of the management team's expertise.

57. After DDC1's report, investors and due diligence consultants began to ask questions about BSMA. Soon after, investors representing \$2.45 billion in assets made inquiries about redeeming. At least one large institutional investor which had been close to investing with BlueCrest declined to do so, purportedly because of BSMA. By March 2014, shortly after press reports regarding DDC1's report were published, BlueCrest received numerous requests to redeem or indications of plans to do so, some of which specifically cited BSMA. At its March 25, 2014 meeting, the ExCo received reports of investor feedback about BSMA, and associated actual and potential redemptions.

58. Many investors and due diligence consultants requested information concerning BSMA's and BCI's comparative performance, which BlueCrest declined to provide, citing commercial and confidentiality reasons.

59. When responding to investor and due diligence consultant questions, BlueCrest emphasized the differences between BCI's and BSMA's trading mandates while minimizing the overlap between their main trading strategies. BlueCrest also claimed that BSMA was advantageous to BCI investors because it helped BlueCrest retain traders in general, while omitting to disclose that most of the traders permitted to invest in BSMA only traded for that fund, and not for BCI.

60. In March 2014, in response to concerns about whether high-performing traders were allocated to BSMA, BlueCrest told a second due diligence consultant ("DDC2") for the first time about RMT's existence. However, BlueCrest did not tell DDC2 that BlueCrest had transferred numerous traders from BCI to BSMA; that RMT did not capture all of the risk of all of BlueCrest's Rates and RV traders; or that RMT had lower P&L and greater volatility than the live Rates and RV traders.

61. The due diligence consultants stated they were unable adequately to assess the conflicts of interest posed by BSMA because of BlueCrest's unwillingness to provide all requested information. As a result, in May 2014, DDC1 downgraded its BlueCrest rating once again. In September 2014, DDC2 downgraded its rating of BCI to "uninvestable" due to BlueCrest's conflicts of interest relating to BSMA and refusal to provide sufficient information regarding BSMA and RMT. Thereafter, all of DDC2's client investors in BCI redeemed their investments in that fund.

62. By the end of 2014, substantial further redemptions in BCI prompted DDC1 to downgrade BlueCrest to its lowest possible rating. As of December 31, 2013, BCI's total AUM was approximately \$13.9 billion; by the end of 2014, BCI's total assets had dropped to \$9.4 billion. By the end of 2015, those assets had reduced to \$2.2 billion after BlueCrest sent a December 1, 2015 letter to all BCI investors notifying them that BlueCrest had made the decision to stop managing external client money and was returning their capital. After the Relevant Period, BlueCrest sent all of its client-facing funds, including BCI, to an appointed liquidator.

Failure to Implement Adequate Compliance Policies and Procedures

63. During the Relevant Period, BlueCrest had a conflicts-of-interest policy, conflicts register, and a U.S. Compliance Manual. The conflicts-of-interest policy stated that, where the firm's "arrangements" were not sufficient to ensure with reasonable confidence that the risk of damage to the client would be prevented, BlueCrest "must clearly disclose, in a durable medium, the general nature and source of the conflict of interest to the client before undertaking business for the client; and must provide sufficient detail to enable that particular client to take an informed decision in relation to the service offered."

64. BlueCrest's conflicts register identified, as a conflict, the "[a]llocation of capital and portfolio managers across asset classes and funds" and elaborated that this conflict related to

how “[c]apital and portfolio managers may be allocated in a way that favours one fund over another.”

65. The U.S. Compliance Manual stated, “[a]s a fiduciary, [BlueCrest] has an affirmative duty to act in the best interests of all of its clients and to make disclosure of material conflicts of interest. . . . Pursuant to this duty, [BlueCrest] must at all times act in its clients’ best interests. . . . Each of the Company’s employees owes the same fiduciary duties to the Company’s clients as set forth above.”

66. During the Relevant Period, BlueCrest failed to implement policies and procedures reasonably designed to prevent violations of the Advisers Act and Rules thereunder resulting from the conduct described herein.

Violations

67. As a result of the conduct described above, BlueCrest willfully violated Sections 17(a)(2) and 17(a)(3) of the Securities Act, which prohibit any person in the offer or sale of securities from obtaining money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make statements not misleading, and from engaging in any practice or course of business which operates or would operate as a fraud or deceit in the offer or sale of securities, respectively. Negligence is sufficient to establish violations of Sections 17(a)(2) and (3) of the Securities Act. *Aaron v. SEC*, 446 U.S. 680, 696-97 (1980).

68. As a result of the conduct described above, BlueCrest willfully² violated Section 206(2) of the Advisers Act which prohibits an investment advisor from, directly or indirectly, engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client. A violation of Section 206(2) of the Advisers Act may rest on a finding of simple negligence. *SEC v. Steadman*, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992) (citing *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 195 (1963)).

69. As a result of the conduct described above, BlueCrest willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder which prohibit investment advisers from engaging in any act, practice, or course of business which is fraudulent, deceptive, or manipulative, and from making any untrue statement of a material fact or omitting to state a material fact necessary to make the statements made, in light of the circumstances under which they are made, not misleading to investors or prospective investors in a pooled investment

² “Willfully,” for purposes of imposing relief under Section 203(e) of the Investment Advisors Act of 1940, “means no more than that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor “also be aware that he is violating one of the Rules or Acts.” *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term “willfully” for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has “willfully omit[ted]” material information from a required disclosure in violation of Section 207 of the Advisers Act).

vehicle. A finding of negligence is sufficient to establish a violation of Section 206(4) and Rule 206(4)-8 thereunder. *Steadman*, 967 F.2d at 647.

70. As a result of the conduct described above, BlueCrest willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which require registered investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Section 8A of the Securities Act and Sections 203(e) and 203(k) of the Investment Advisers Act, it is hereby ORDERED that:

A. Respondent BlueCrest cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2), and 17(a)(3) of the Securities Act and Sections 206(2) and 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 promulgated thereunder.

B. Respondent BlueCrest is censured.

C. Respondent BlueCrest shall, within ten days of the entry of this Order, pay disgorgement of \$107,560,200, prejudgment interest of \$25,154,306, and a civil penalty of \$37,285,494 to the Securities and Exchange Commission. If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 and, if timely payment of a civil penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

D. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

E. Payments by check or money order must be accompanied by a cover letter identifying BlueCrest as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Adam S. Aderton, Co-Chief, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5012.

F. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund is created for the disgorgement, prejudgment interest, and penalty referenced in paragraph C above. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary