

# LMAX Limited

## MIFIDPRU 8 Disclosures

*Authorised and Regulated by the Financial Conduct Authority*

*Firm Reference Number 509778*

*Registered Company Number 06505809*

**31 December 2022**



Grant Pomeroy

Finance Director

### DISCLAIMER

**The information contained in this disclosure has not and is not required to be audited by the Company's external auditors and does not constitute any form of financial statement.**



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## Introduction

### Overview

The Investment Firm Prudential Regime (IFPR) is the FCA's new prudential regime for MiFID investment firms which aims to streamline and simplify the prudential requirements for UK investment firms. IFPR came into effect on 1st January 2022, and its provisions apply to LMAX Limited ("the Firm") as an FCA authorised and regulated firm.

LMAX Exchange is the trading name of LMAX Limited.

The public disclosure requirements of IFPR are set out in MIFIDPRU 8, replacing the previous Pillar 3 requirements under Capital Requirements Regulation.

LMAX Limited is classified as a non-SNI MIFIDPRU investment firm with a permanent minimum requirement (PMR) of £150k.

Under MIFIRPU 8 the firm is required to make the following disclosures in respect of the following areas:

- Governance arrangements (MIFIDPRU 8.3);
- Risk Management (MIFIDPRU 8.2);
- Own Funds (MIFIDPRU 8.4);
- Own Funds Requirements (MIFIDPRU 8.5); and,
- Remuneration Policy and Practices (MIFIDPRU 8.6).

## Governance

The firm has established the following governance structure:

LMAX Limited operates as a standalone entity with its own standalone Board, and governance and oversight arrangements. The Board and Risk Management Committee provide regular updates to the relevant Group Committees and escalate matters where appropriate.



### The Board

The LMAX Limited Board has overall responsibility for the firm (SYSC 4.3A.1R (1)) and for risk management and devotes sufficient time to the consideration of risk (MIFIDPRU 7.2.3R (1)).

The Board is actively involved in, and ensures that adequate resources are allocated to, the management of all risks, in accordance with MIFIDPRU 7.2.3R (2).

The Board is required to define, oversee, and is accountable for, the implementation of governance arrangements that ensure effective and prudent management of the firm, including:

- the segregation of duties in the organisation and
- the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of clients.

The Board meets quarterly and is responsible for:

- Approving and overseeing implementation of the firm's:
  - a) strategic objectives and risk appetite
  - b) risk strategy and
  - c) internal governance;
- Performance of the duties of the supervisory function in accordance with SYSC 4.3A1R(3), SYSC 4.3.1R and SYSC 4.3.2AG, including:
  - a) Ensuring the integrity of the firm's accounting and financial reporting systems
  - b) Ensuring the firm complies with its obligations under the regulatory system;
  - c) Assessing and reviewing the effectiveness of the policies, arrangements and procedures and financial and operational controls put in place to comply with these obligations and;
  - d) Supervision of the senior personnel of the firm
- Overseeing the process of disclosure and communications
- Providing effective oversight of senior management
- Monitoring and periodically assessing:
  - a) The adequacy and the implementation of the firm's strategic objectives in the provision of investment services and/or activities and ancillary services;
  - b) The effectiveness of the firm's governance arrangements; and
  - c) The adequacy of the policies relating to the provision of services to clients and taking appropriate steps to address any deficiencies.

- Defining, approving and overseeing:
  - a) The organisation of the firm (SYSC 4.3A.1AR(1)) including the:
    - Skills, knowledge and expertise required by personnel;
    - Resources and;
    - Procedures and arrangements for provision of services and activities.
  - b) A product governance policy and target market assessment (SYSC 4.3A.1AR (2))
  - c) A remuneration policy for those staff involved in providing services to clients, which should encourage responsible business conduct, treating clients fairly and avoiding conflicts of interest with clients. (SYSC 4.3A.1AR(3))
- Reviewing and approving the content of the ICARA document within a reasonable period after the review of the ICARA process has been completed, including specifically reviewing and approving the key assumptions underlying the ICARA document. (MIFIDPRU 7.8.8R)
- The effectiveness of wind-down planning, setting the strategy for the process and reviewing and approving the wind-down plan at least annually, and after any material change in the business/operating model. (WDPG App 2.1.2G, WDPG App 2.1.3G, WDPG 3.1.4G and WDPG 3.1.5G)

## Risk Committee

Whilst the firm is not required to establish a Risk Committee under MIFIDPRU 7.3.1R, the firm has elected to establish a Risk Committee, described further below.

## Diversity

The firm is currently developing and enhancing its diversity policy, however, LMAX Limited is committed to promoting inclusion and diversity across the firm.

## Directorships

The following directors have held office in executive and non-executive functions throughout the financial year ending December 2022:

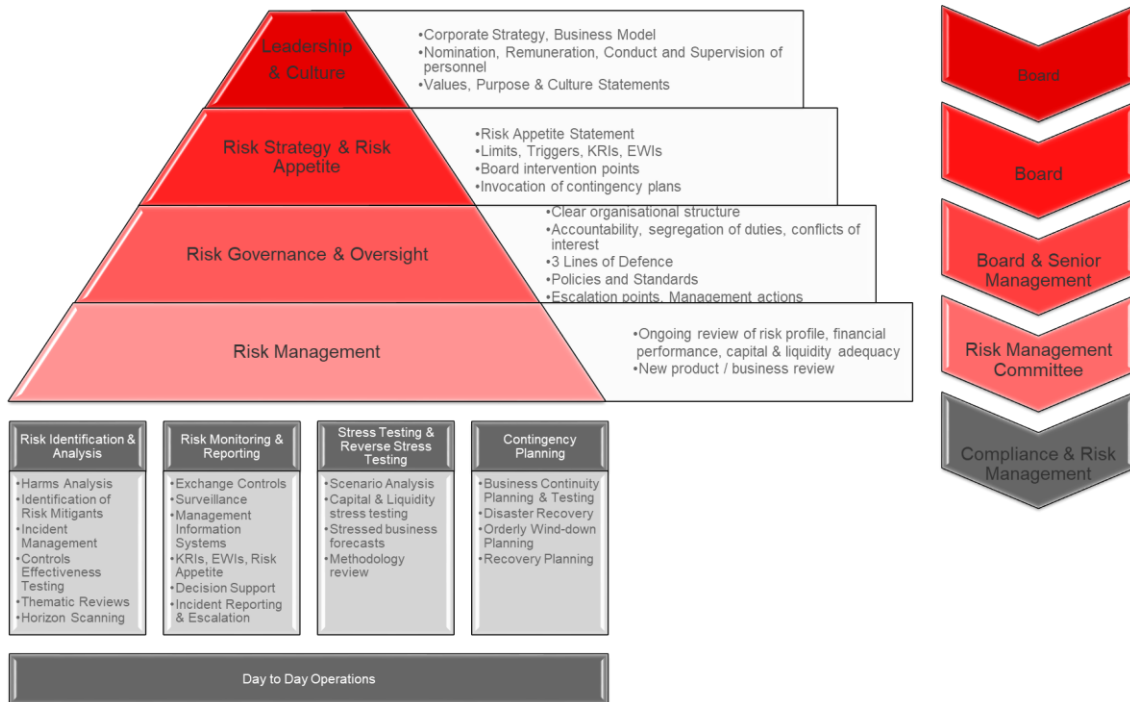
Director	Position at the Firm	Number of Other Directorships (Executive)	Number of Other Directorships (Non-Executive)
David Mercer	Executive Director	-	-
Grant Pomeroy	Executive Director	-	-
Edmond Warner	Non-Executive Director	-	3
Edward Wray	Non-Executive Director	2	1

Directorships held within the same group are counted as a single directorship and those in non-commercial organisations are excluded.

## Risk Management

The Firm has assessed that it has in place adequate oversight, systems and controls and complies with MIFIDPRU 7 (Governance and Risk Management) and the SYSC part of the FCA Handbook, as applicable to the Firm.

The firm has in place an established Risk Management Framework encompassing all risks, which is summarised in the diagram below.



### Risk Management Committee

The Risk Management Committee reports to the Board, meets at regular intervals in line with its terms of reference, and consists of the Risk Management department and Senior Managers and Certified staff from across the business.

The Risk Management Committee is responsible for, inter alia:

- Identifying, assessing, managing and reviewing the risk exposures of the firm;
- Reviewing risk appetite and recommending changes to the Board;
- Reviewing the firm's governance and oversight arrangements are fit for purpose and meet legal and regulatory requirements;
- Reviewing and recommending to the Board to approve the firm's risk policies and risk register;
- Assessing and recommending to the Board to approve the firm's capital and liquidity adequacy, at least on an annual basis, through the ICARA process;
- Reviewing and recommending to the Board to approve the firm's wind-down planning and recovery and resolution planning and;
- Keeping the Board informed of risk updates, matters for escalation and KRIs.

### Three Lines of Defence

The firm operates a Three Lines of Defence (3LOD) model, which is well-defined, and which clearly outlines responsibilities for the identification, management, monitoring and mitigation of risks.

The first line of defence (1LOD) are the business owners in operational functions, who are accountable and responsible for identifying, assessing, managing and reporting of risks.

The second line of defence (2LOD) are individuals, teams, and/or committees that provide oversight, review, and challenge of the first line and oversee that risks are managed within Risk Appetite. This tends to be designated risk and compliance functions, and risk committees / sub-committees.

The third line of defence (3LOD) are the independent assurance providers that provide the firm and its Board with confidence that activities and risk management conducted by the first and second lines of defence are operating effectively. The firm generally relies on its external auditors and commissions specific thematic reviews by specialist advisors from time to time.

## Risk Appetite Setting

The firm's strategic objectives and risk appetite are set by the Board concomitantly. The Risk Appetite sets out the level of risk that it is willing to undertake in pursuit of its strategic business objectives.

It promotes consistent, 'risk-informed' decision-making aligned with strategic aims and it also supports robust corporate governance by setting clear risk-taking boundaries.

The Risk Appetite Statements, limits and early warning indicators are reviewed at least annually, or more often as deemed appropriate, as part of the ICARA review process.

## Key Risks

Based on the firm's business model, the ICARA process determined the key risks outlined below.

The ICARA process is undertaken at a solo entity level, whereby the firm assesses own funds requirements, concentration risk and liquidity to ensure adequate financial resources are held for the business activities the firm pursues. This ICARA process incorporates the risk management framework noted above, which includes the identification and monitoring of these key risks.

As part of this process, each risk is assessed against the firm's appetite along with the other controls and mitigants to reduce the risk of harm to the firm, clients and the wider market.

### Key Risks

**Liquidity Risk:** The risk that the firm, although solvent, either does not have sufficient liquid resources to meet its obligations as they fall due or can secure such resources only at excessive cost.

**Own Funds Risk:** The risk that the firm does not have sufficient loss-absorbing capital ("own funds", as defined in MIFIDPRU 3.2-3.6) to be able to:

- address any material harm that may result from the firm's ongoing activities and;
- wind-down the business in an orderly manner without harm to customers or other market participants

**Operational Risk:** The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In line with Basel principles, this definition includes legal risk but excludes business and reputational risk.

- The firm faces risks such as cyber, third party, and human error from process risks. The firm is also at risk of external threats such as global pandemics or war.

**Business and Strategic Risk:** Any risk to the firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy. This risk is often associated with fluctuating business cycles and economic conditions over a period of time. The ability of the firm to raise new capital in unfavourable conditions should also be considered.

**Conduct Risk:** The risk of potential misconduct by LMAX Limited or its employees that may lead to customer detriment or that has an adverse effect on the integrity and stability of the financial markets or effective competition.

**Reputational Risk:** The risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debtholders, market analysts, other relevant parties or regulators that can adversely affect the Firm's ability to maintain existing, or establish new, business relationships and continued access to sources of funding.

- Risks include reputational damage or harm to the firm which adversely impacts the viability of the firm through the loss of customers, counterparties, markets, or products, etcetera.

### **Approach to assessing the effectiveness of the Risk Management Function**

The Board assesses the adequacy of its risk management framework as part of the ICARA review process and considers whether the outcomes of the Risk management process reflect a framework that is fit for purpose.

## Own Funds

This disclosure is using the required templates provided in MIFIDPRU 8.4.2R, including a reconciliation with own funds in the balance sheet in the audited financial statements.

### Composition of Own Funds

	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	<b>OWN FUNDS</b>	4,271	
2	<b>Tier 1 Capital</b>	4,271	
3	<b>Common Equity Tier 1 Capital</b>	4,271	
4	Fully paid-up capital instruments	599	Note 10
5	Share premium	8,000	Page 15 - Statement of Financial Position
6	Retained earnings	2,964	Page 15 - Statement of Financial Position
7	Accumulated other comprehensive income	-	
8	Other reserves	5,391	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	12,683	Note 6
19	CET1: Other capital elements, deductions, and adjustments	-	
20	<b>Additional Tier 1 Capital</b>	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions, and adjustments	-	
25	<b>Tier 2 Capital</b>	-	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions, and adjustments	-	



## Reconciliation to audited financial information

The table below shows a reconciliation with own funds in the balance sheet where assets and liabilities have been broken down by asset and liabilities classes respectively. The information in the table below reflects the balance sheet in the audited financial statements.

<b>Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements</b>				
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to Composition of own funds table
		31/12/2022	31/12/2022	
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>				
1	Intangible assets	12,683	-	11
2	Property, plant and equipment	3,845	-	
3	Trade and other receivables	13,606	-	
4	Cash and cash equivalents	2,270	-	
	<b>Total Assets</b>	<b>32,404</b>	-	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>				
1	Non-current liabilities: Trade and other payables	2,811	-	
2	Current liabilities: Trade and other payables	12,639	-	
	<b>Total Liabilities</b>	<b>15,450</b>	-	
<b>Shareholders' Equity</b>				
1	Share capital	599	-	4
2	Share premium	8,000	-	5
3	Distributable reserves	5,391	-	8
4	Retained earnings	2,964	-	6
	<b>Total Shareholders' equity</b>	<b>16,954</b>	-	

## Main features of the firm's own funds instruments

As at the 31 December 2022 the firm had in issue 599,079 ordinary shares with a nominal value of £1. This share class has been in existence since the incorporation of the firm on 15 February 2008. Subsequent issuances have been made since this date, with the most recent issuance on 11 October 2023.

The firm's ordinary shares are the only CET1 own funds instrument currently in issue.



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## Own Funds Requirement

The firm's own funds requirement is broken down as follows (as of 31 December 2022):

Requirement	£000s
<b>Permanent Minimum Capital Requirement (PMR)</b>	150
Fixed Overhead Requirement	3,170
Total K-Factor Requirement	-
Sum of K-AUM, K-CMH and K-ASA	-
Sum of K-COH and K-DTF	-
Sum K-NPR, K-CMG, KTCD and K-CON	-
<b>Own Funds Requirement (Higher of PMR, OFR, KFR)</b>	3,170

### Assessing the Adequacy of Own Funds

The Firm assesses the adequacy of its own funds in accordance with the minimum own funds requirement, in accordance with MIFIDPRU 4, as show in the table above.

In addition to the regulatory minimum, the Firm undertakes its own assessment of own funds requirements through its Internal Capital Adequacy and Risk Assessment (ICARA) Process, in order to identify additional own funds required to:

- Fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle (MIFIDPRU 7.6.4G (2)(a)); and
- Ensure that the firm can be wound down in an orderly manner (MIFIDPRU 7.6.4G (2)(b)).

## Remuneration

### Qualitative Disclosures

The MIFIDPRU Remuneration Code and the Disclosure requirements in MIFIDPRU 8.6 apply to LMAX Limited.

The Firm meets the conditions in SYSC19G.1.1R, meaning that it is exempt from the extended remuneration code (SYSC 19G.1.1R(4)) and disclosure requirements (MIFIDPRU 8.6.8R(6)), and must comply with the standard remuneration requirements.

The Group Remuneration policy applies to all entities in the LMAX Group consistently. The policy is owned by the Chief People Officer and is approved by the Group Remuneration Committee, a committee of the Group Board.

The general approach to remuneration across the firm is to ensure all staff are paid a fair and competitive remuneration package for the work they do.

Remuneration components include an annual salary, benefits package, annual discretionary bonus, long-term incentive plan for senior management and key talent.

Salaries are regularly benchmarked to market. The individual payout of the annual bonus scheme is determined by job level, company performance and discretionary personal performance awards. This approach to bonus ensures fairness and is designed to incentivise all colleagues to work together to collectively improve company performance.

The types of staff identified as material risk takers are ExCo, Senior Management and other leaders that are key to our business operations. There are 6 staff identified as Senior Management and Other Material Risk Takers of LMAX Limited. Their remuneration is broken down below.

### Quantitative Disclosures

In accordance with MIFIDPRU 8.6.8R, the Firm is required to disclose the total amount of remuneration awarded to all staff, split by fixed and variable remuneration, as well as various splits for senior management and material risk takers, as shown below.

No individuals have been awarded any guaranteed variable remuneration, nor severance payments.

	Fixed remuneration	Variable remuneration	Total remuneration
Senior Management	552,195	4,200	556,395
Other Material Risk Takers	48,300	7,350	55,650
Other staff	9,064,090	894,378	9,958,468
Total	9,664,585	905,928	10,570,513