

# LMAX Broker Limited

*Authorised and Regulated by the Financial Conduct Authority*

*Firm Reference Number 783200*

*Registered Company Number 10819525*

## MIFIDPRU 8 Disclosures

**31 December 2023**



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**Grant Pomeroy**, Finance Director

### DISCLAIMER

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



| Global

## Introduction

LMAX Broker Limited (trading as LMAX Global) offers brokers and professional traders the ability to trade on the LMAX Exchange central limit order book with tight spreads and deep liquidity from top tier banks and proprietary trading firms. The Firm operates as a broker for the electronic trading of Foreign Exchange (FX), metals, commodities and other Contracts for Difference (CFD's), including cryptocurrencies.

The Firm is authorised and regulated by the Financial Conduct Authority (FCA), company reference number 783200, and is subject to the FCA's Prudential Sourcebook for MiFID Investment Firms (MIFIDPRU).

LMAX Broker Limited is classified as a non-SNI MIFIDPRU investment firm with a permanent minimum requirement (PMR) of £750k and is subject to the disclosure requirements as set out in MIFIDPRU 8 of the FCA Handbook which requires the Firm to make disclosures in respect of the following areas:

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

## Principal Risks and Uncertainties

LMAX Global has well-established processes for identifying managing risks. The Board sets the Risk Appetite and monitors how well risks within the business are managed, mitigated and controlled. The Firm has a long-term focus, with importance placed on building a sustainable business model with the capacity to manage all the risks it faces, and the ability to continue to offer its services under sustained financial market volatility and stressed conditions.

The Firm operates in a dynamic competitive environment, facing risks relating to market conditions and its competitive position. The level of revenue in any period is largely driven by commission and funding income, which is a function of the volume of trading and the size of positions held overnight by the Firm's clients. The revenue mix is determined by trading conditions, where high market volatility usually results in increased levels of trading and commissions but reduced position sizes and funding income; conversely low market volatility usually has the opposite impact.

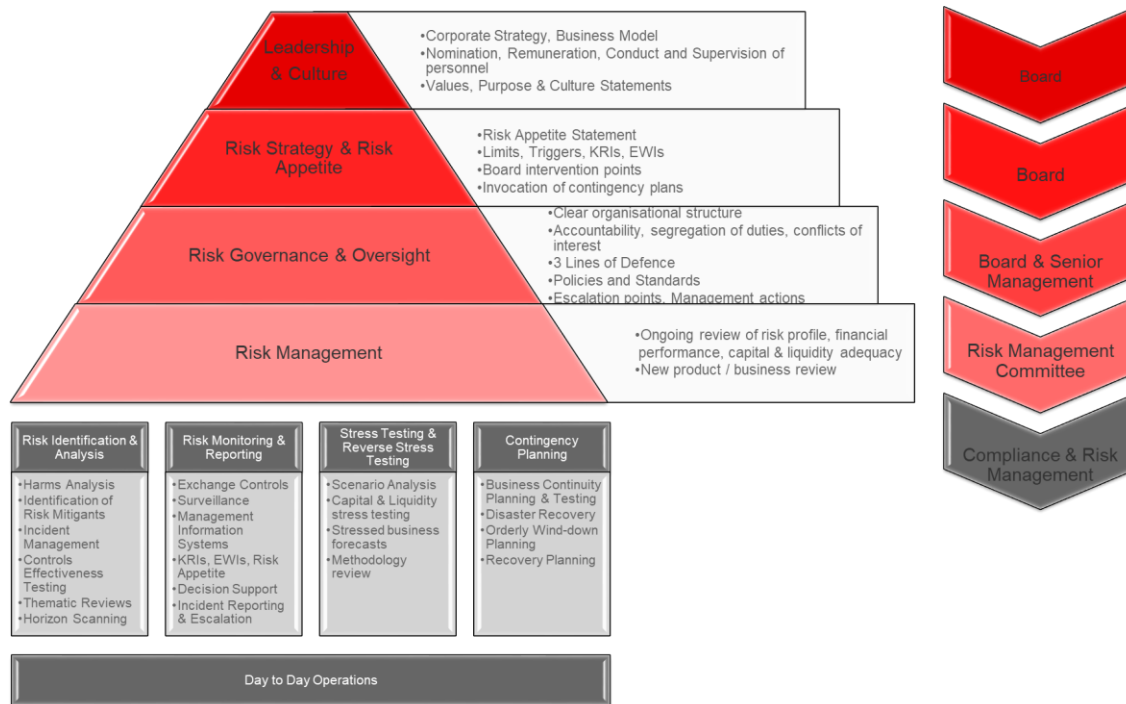
The business operates in several geographic regions which affects how it is able to market and provide its services to clients. The regulations relating to the products and markets in which the business operates are continually evolving. LMAX Global welcomes any movement by regulators to improve client outcomes and recognises some changes may adversely impact it or the activities of its clients as the industry adapts.

- In place adequate oversight, systems and controls in relation to risk management.
- In place appropriate strategies, policies and processes for identifying, measuring, monitoring and managing the risks faced.
- Sufficient capital to meet its regulatory and internal capital requirements.
- Sufficient liquidity to meet its obligations as they fall due.

## 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 Senior Management Arrangements, Systems and Controls (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 Senior Managers and Certified staff from across the business.

The Risk Management Committee is responsible for:

- 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 to ensure they are fit for purpose and meet legal and regulatory requirements.
- Reviewing and recommending to the Board the approval of 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 Internal Capital Adequacy and Risk Assessment (ICARA) Process.
- Reviewing and recommending to the Board to approve the Firm's wind-down planning and recovery and resolution planning.
- Keeping the Board informed of risk - risk reporting (exposure versus risk appetite, risk metrics, Key Risk Indicators (KRIs)), and matters requiring escalation.

## 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, and 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 concurrently. 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 Statement, limits, KRIs, and Early Warning Indicators (EWIs) 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 key risks to the business are capital, liquidity, credit, operational, information technology and cyber security, foreign exchange, conduct, and reputational risk – these are outlined in more detail 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 Firm's Risk Management Framework noted above, which includes the identification and monitoring of these key risks. Each risk is assessed against the Firm's risk appetite along with the other controls and mitigants to reduce the risk of harm to the Firm, clients, and the market.

## **Capital Adequacy Risk**

As of 31 December 2023, LMAX Global was regulated under the Investment Firm Prudential Regime (IFPR), which stipulates the requirements to hold sufficient regulatory capital to cover its risk exposures, valued according to applicable rules. The Firm manages capital adequacy through its Regulatory Capital Policy, ensuring that it holds sufficient capital to deliver its business plan and to meet regulatory requirements.

The Firm manages its capital resources with the objectives of facilitating business growth whilst complying with the regulatory capital resources requirement. LMAX Global undertakes an annual ICARA Process through which it assesses its capital requirements, including the application of a series of stress-testing scenarios, to its base financial projections. The ICARA document is reviewed, challenged and approved by the Board annually.

## **Liquidity Risk Management**

Liquidity risk is defined as 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.

Liquidity is managed through the application of the Firm's Liquidity Risk Management Policy and the liquidity requirements specified in IFPR. The Firm manages liquidity ensuring that it has sufficient liquidity to meet its broker margin requirements and other financial liabilities when due, under both normal and stressed conditions. These liquidity requirements must be met from the Firm's own liquidity resources, client money cannot be used towards operational liquidity. The Firm's liquidity requirements are modelled annually in the ICARA Process and monitored and managed on an ongoing basis.

## **Counterparty credit and Concentration Risk**

LMAX Global is exposed to the risk that either a client or a financial counterparty fails to meet their obligations to the Firm, resulting in a financial loss. As a result of offering leveraged trading products, the business accepts that client credit losses can arise as a cost of its business model. Client credit risk principally arises when a client's total funds deposited with the Firm are insufficient to cover any trading losses incurred. In addition, a small number of clients are granted credit limits to cover running losses on open trades and margin requirements.

Client credit risk is managed intraday through setting client margin requirements that reflect the market price risk for each instrument and uses tiered margining so that larger positions are subject to proportionately higher margin requirements. Clients are required to collateralise their accounts at an appropriate level in excess of the minimum requirement. The business further mitigates client credit risk through the real-time monitoring of client positions via a close-out monitor, and by giving clients the ability to set a level at which an individual deal will be closed. The close-out monitor automatically identifies accounts that have breached their liquidation thresholds and triggers an automated liquidation process of positions on those accounts. Where client losses are such that their total equity falls below the specified liquidation level, positions will be liquidated to bring the account back on-side, resulting in reduced credit risk exposure for the business.

In respect of an extreme event, such as when a market 'gaps' overnight or over a weekend, a client could be left with liabilities greater than their available funds. These liabilities would be funded with Firm funds until fully repaid from the client. The Firm monitors large client position sizes and runs daily and weekend stress tests to assess potential bad debt scenarios in the event of an extreme market event to be fully aware of potential exposures.

## **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes business and reputational risk.

The Operational Risk Committee ensures that the Firm has adequate systems and controls in place to mitigate material operational losses from occurring.

## **Information Technology and Cyber Security**

As an online business, the integrity and operational robustness of IT systems are critical for ongoing performance. Ensuring that appropriate protections are in place to detect and prevent any intrusion such that all systems are safeguarded against hackers, email viruses, attacks and other forms of cybercrime is essential. Any failure in these measures could significantly impact the Firm's reputation and hence financial performance.

The Firm conducts annual third-party security assessments covering the internal and external facing systems and applications and to assess the susceptibility to cyber-crime. The Group has implemented an information security framework ISO 27001:2022 which is certified by a UKAS accredited audit body and is assessed for compliance every six months. The group has an internal audit team responsible for developing, testing and maintaining the controls required to support various compliance activities.

## **Foreign Exchange (FX) Risk**

The Firm proactively manages its FX risk with regards to currency exposure on financial assets and liabilities by conducting regular internal review, cash management and by hedging the residual exposure when deemed appropriate.

## **Conduct Risk**

Conduct risk is broadly defined as the risk of potential misconduct by LMAX Global or its employees that may lead to client detriment or that has an adverse effect on the integrity and stability of the financial markets or effective competition.

The Firm strives to promote good behaviour across all aspects of the organisation and develop a culture in which it is clear there is no room for misconduct. The Firm has no appetite for conducting risks to crystallise into a breach that may harm clients, markets, or competition. Any issues that are likely to result in material harm to clients, markets or competition are to be raised at the Board as appropriate.

## **Business & Strategic Risk**

Business risk is defined as 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.

The Firm is willing to take risks on new products, business lines and acquisitions to achieve growth and drive profitability over the long-term, while maintaining the Firm's financial resilience. The Firm will only engage in activities that are aligned to the Firm's desired risk profile and long-term strategy. The Firm aligns its business plan to ensure it can meet its strategic objectives and ensures variations in its business performance versus the plan do not deviate above acceptable levels.

## **Reputation Risk**

Reputational Risk is defined as the risk arising from negative perception on the part of clients, counterparties, shareholders, investors, debt holders, 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.

The Firm's appetite for reputational risk is low. The Marketing and Legal & Compliance functions maintain a daily watch brief for potential reputational issues. Additionally, the Firm undertakes to:

- Offer access only to appropriate clients (in terms of their financial means and the absence of any links to money laundering, fraud and terrorist financing); and
- Only accept broker clients from jurisdictions where the Firm knows it is legal to do so.

The Firm is committed to compliance with the financial sanctions regime and does not conduct business with, nor maintain relationships with any individual or entity registered on a sanction list. LMAX Global screens clients against a number of consolidated sanctions lists including the HM Treasury, OFAC, United Nations, EU and other relevant financial sanction authorities. Individuals and corporations undergo initial screening prior to the establishment of a business relationship and on a real-time ongoing basis.

## **Approach to Assessing the Effectiveness of the Risk Management Framework**

The Board assesses the adequacy of the Firm's 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.

## Governance

The Firm has established the governance structure per the diagram. LMAX Broker Limited (trading as LMAX Global) 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 Broker 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 1LOD and 2LOD responsibilities within the Firm
- Preventing conflicts of interest from arising to maintain the integrity of the market and 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
  - 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
  - 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
  - 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





- 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 not required by MIFIDPRU to establish a risk committee, the Firm has established a Risk Management Committee comprising senior stakeholders with the required knowledge and experience.

## Diversity

The Firm is committed to promoting equality, inclusion, and diversity across the Group.

## Directorships

The following directors have held office in executive and non-executive functions throughout the financial year ending December 2023. The number of directorships held outside the Firm are also shown.

Director	Position at the Firm	Number of Other Directorships (Executive)	Number of Other Directorships (Non-Executive)
Grant Pomeroy	Executive Director	-	-
Campbell Millar	Executive Director	-	-
Andreas Wigstrom	Executive Director	-	-

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



## 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 Regulatory Own Funds - 31 December 2023

	Item	Amount (GBP '000)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	<b>OWN FUNDS</b>	<b>27,296</b>	
2	<b>Tier 1 Capital</b>	<b>27,296</b>	
3	<b>Common Equity Tier 1 Capital</b>	<b>27,296</b>	
4	Fully paid-up capital instruments	599	Note 9 and page 15 - Statement of Financial Position
5	Share premium	11,401	Page 15 - Statement of Financial Position
6	Retained earnings	15,299	Page 15 - Statement of Financial Position
7	Accumulated other comprehensive income		
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds		
11	<b>(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1</b>	<b>(3)</b>	
19	CET1: Other capital elements, deductions, and adjustments	(3)	Note 3.1 and page 15 - Statement of Financial Position
20	<b>Additional Tier 1 Capital</b>	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	<b>(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1</b>	-	
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	<b>(-) TOTAL DEDUCTIONS FROM TIER 2</b>	-	
29	Tier 2: Other capital elements, deductions, and adjustments	-	

## Reconciliation to Audited Financial Information

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements (GBP '000)				
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to Composition of own funds table
		31/12/2023	31/12/2023	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Intangible assets	0	-	
2	Current tax assets	817	-	
3	Trade and other receivables	99,109	-	
4	Deferred tax asset	3	-	19
5	Cash and cash equivalents	23,161	-	
	<b>Total Assets</b>	<b>123,090</b>		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Trade and other payables	(95,791)	-	
	<b>Total Liabilities</b>	<b>(95,791)</b>	-	
	<b>Net Assets</b>	<b>27,299</b>		
Shareholders' Equity				
1	Share capital	599	-	4
2	Share premium	11,401	-	5
3	Retained earnings	15,299	-	6
	<b>Total Shareholders' equity</b>	<b>27,299</b>		

## Main Features of the Firm's Own Funds Instruments

As at the 31 December 2023 the Firm had in issue 599,077 ordinary shares with a nominal value of £1. This share class has been in existence since the incorporation of the Firm on 14 June 2017.

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

## Own Funds Requirements

The Firm's own funds requirement is broken down as follows (as of 31 December 2024):

Own Funds Requirements	£000s
Permanent Minimum Capital Requirement (PMR)	750
Fixed Overhead Requirement (FOR)	4,893
<b>Total K-Factor Requirement (KFR)</b>	<b>21,046</b>
Sum of K-CMH	162
Sum of K-DTF	297
Sum K-NPR, K-TCD and K-CON	20,587
<b>Own Funds Requirement (Higher of PMR, FOR, KFR)</b>	<b>21,046</b>
<b>Own Funds</b>	<b>27,296</b>
<b>Own Funds Surplus</b>	<b>6,250</b>

## 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. As of 31 December 2023, the Firm had £27,296k of own funds against a minimum requirement of £21,046k, an excess of £6,250k.

In addition to the regulatory minimum, the Firm undertakes its own assessment of own funds requirements through its 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))
- Ensure that the Firm can be wound down in an orderly manner (MIFIDPRU 7.6.4G (2)(b))

## Remuneration

### Qualitative Disclosures

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)). The Firm is compliant 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, firm performance and discretionary personal performance awards. This approach to bonuses ensures fairness and is designed to incentivise all colleagues to work together to collectively improve the firm's performance.

In accordance with MIFIDPRU 8.6.8R, the Firm is required to disclose the total amount of remuneration awarded to senior management, material risk takers, and all other staff, split by fixed and variable remuneration is detailed below. Note, there were 9 staff identified as senior management and/or material risk takers, their remuneration numbers have been aggregated to anonymise.

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

	Fixed remuneration (£)	Variable remuneration (£)	Total remuneration (£)
Senior Management and/or Material Risk Takers	959,550	177,200	1,136,750
Other staff	7,780,906	217,823	7,998,728
<b>Total</b>	<b>8,740,456</b>	<b>395,023</b>	<b>9,135,479</b>