LMAX Broker Limited

Authorised and Regulated by the Financial Conduct Authority

Firm Reference Number 783200

Registered Company Number 10819525

MIFIDPRU 8 Disclosures

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.

Introduction

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 Broker Limited (the 'Firm') as an FCA authorised and regulated firm.

LMAX Broker Limited has the trading name of LMAX Global.

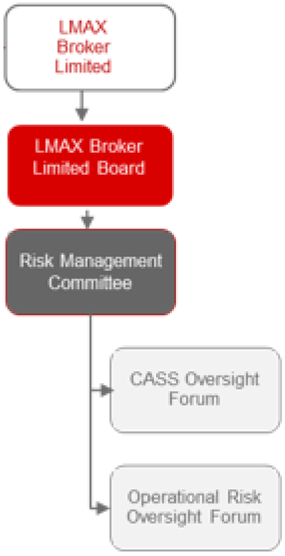
The public disclosure requirements of IFPR are set out in MIFIDPRU 8, replacing the previous Pillar 3 requirements under Capital Requirements Regulation.

LMAX Broker Limited is classified as a *non-SNI MIFIDPRU investment firm* with a permanent minimum requirement (PMR) of *£750k*.

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 Broker 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 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 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 (Internal Capital Adequacy and Risk Assessment) 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)

Risk Committee

Whilst the firm is not required by MIFIDPRU to establish a risk committee, LMAX Broker Limited has established a Risk Management Committee, described further below.

Diversity

The firm is currently developing and enhancing its diversity policy, however, LMAX Broker 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. The number of directorships held outside the Firm are also shown.

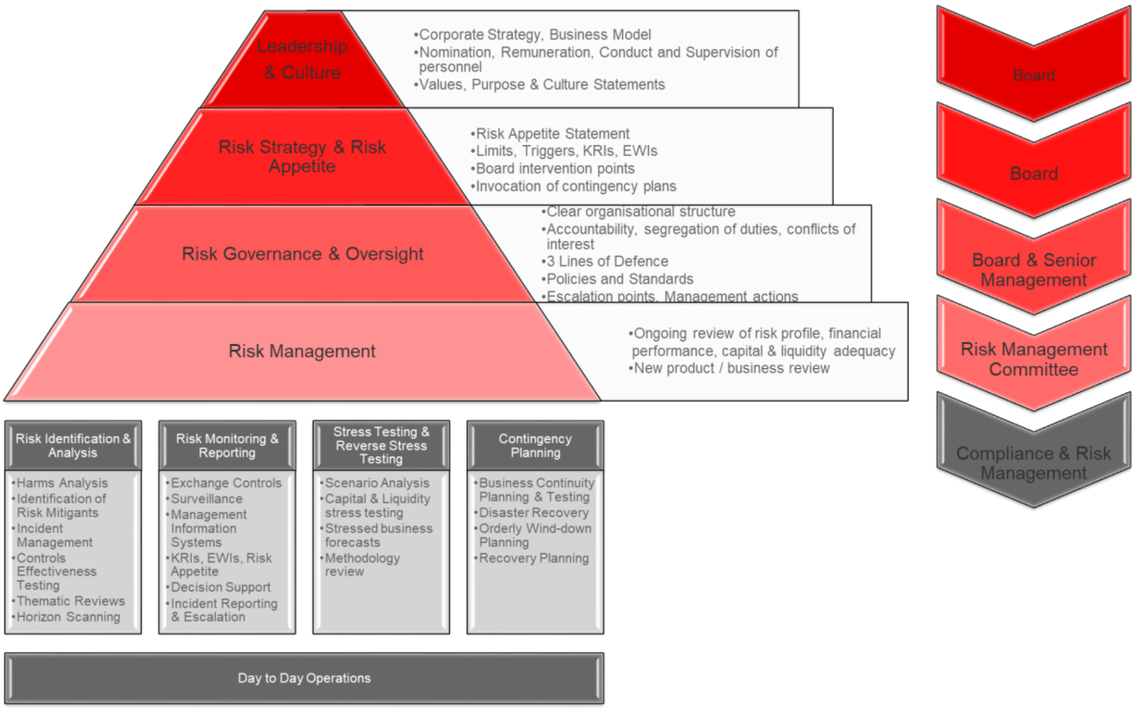
Director		Position at the Firm	Number of Other Directorships (Executive)	Number of Other Directorships (Non-Executive)
David Albert Mercer		**Executive Director**	-	-
Grant Pomeroy		**Executive Director**	-	-
Edmond Warner		**Non-Executive Director**	-	3
Edward Wray		**Non-Executive Director**	2	1

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 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 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 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 Broker 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. Areas where conduct risk may arise are:

- Client Money: The firm holds client money from retail clients as well as from certain professional clients who elect to be treated as retail in order to benefit from client money protections. Client money is segregated in designated trust accounts in accordance with the rules contained in the FCA's Client Assets Sourcebook (CASS).
- Title Transfer Collateral Agreements: The firm also accepts collateral from margin trading clients under Title Transfer Collateral Arrangements. While a significant portion of funds are placed as collateral with the firm's prime brokers and a further portion of funds are set aside as part of the Firm's liquidity requirement to ensure the Firm's ability to meet client's withdrawal requests.

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 Framework

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 Regulatory Own Funds

	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	30,400	
2	**Tier 1 Capital**	30,400	
3	**Common Equity Tier 1 Capital**	30,400	
4	Fully paid-up capital instruments	599	Note 9
5	Share premium	11,401	Page 15 - Statement of Financial Position
6	Retained earnings	18,483	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	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	86	Notes 4 and 3.1
19	CET1: Other capital elements, deductions, and adjustments	-	
20	**Additional Tier 1 Capital**	-	
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	**Tier 2 Capital**	-	
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

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		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	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Intangible assets	83	-	11
2	Current tax assets	813	-	
3	Trade and other receivables	68,490	-	
4	Deferred tax asset	3	-	11
5	Cash and cash equivalents	60,318	-	
	Total Assets	129,707	-	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Trade and other payables	99,224	-	
	Total Liabilities	99,224	-	
Shareholders' Equity				
1	Share capital	599	-	4
2	Share premium	11,401	-	5
3	Retained earnings	18,483	-	6
	Total Shareholders' equity	30,483	-	

Main features of the firm's own funds instruments

As at the 31 December 2022 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. Subsequent issuances have been made since this date, with the most recent issuance on 14 December 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 at 31 December 2022):

Own Funds Requirements	£000s
Permanent Minimum Capital Requirement (PMR)	**750**
Fixed Overhead Requirement (FOR)	**3,059**
Total K-Factor Requirement (KFR)	**7,234**
Sum of K-AUM, K-CMH and K-ASA	149
Sum of K-COH and K-DTF	253
Sum K-NPR, K-CMG, KTCD and K-CON	6,833
Own Funds Requirement (Higher of PMR, OFR, KFR)	7,234

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 Broker 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 8 staff identified as Senior Management and Other Material Risk Takers of LMAX Broker 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 renumeration	Total remuneration
Senior Management	1,062,120	17,200	1,079,320
Other Material Risk Takers	282,300	62,600	344,900
Other staff	4,376,165	271,799	4,647,964
Total	5,720,585	351,599	6,072,184