Archax MIFIDPRU 8 Disclosures 2023/4

1. Introduction

Archax Ltd ('Archax') is authorised and regulated by the FCA as a Multilateral Trading Facility and categorised as a non-SNI investment firm under MIFIDPRU.

The FCA's prudential regime ('MIFIDPRU') sets out requirements for investment firms to disclose information relating to their governance arrangements, risk management, capital adequacy and remuneration.

The disclosure of this information ensures transparency between our firm and our stakeholders, also supporting effective market discipline. Archax will review and update this disclosure at least annually, publishing the disclosure in conjunction with our annual financial statements. In the case of a significant change to our business, Archax may publish this disclosure at an earlier date.

2. Governance

Governance Arrangements

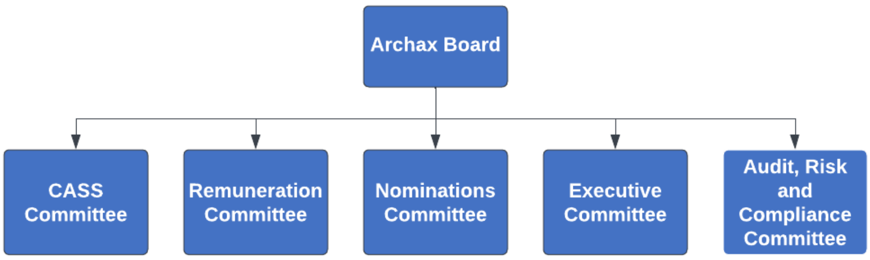
At Archax, we understand transparency, regulation, and risk management to be key drivers in building and maintaining consumer trust. As such, we ensure our governing body have the relevant knowledge, skills and attributes required to adopt these principles and make well-informed decisions that drive our business.

Each managers responsibilities are defined and reported on through our committee network, spanning all areas of the business to guarantee complete oversight and mitigate any risk or conflict of interest. We regularly review these arrangements to ensure they remain adequate for our business as it evolves, taking a proactive approach to adopting changes that reinforce this structure wherever possible.

The Archax Board and Executive Committee

The Board is responsible for driving the overall strategic direction of Archax, having delegated responsibilities for several key operational areas to underlying committees. The Board meet and receive reporting information from each sub-committee on a monthly basis, acting as the ultimate point of escalation for these groups.

The Board delegates the day-to-day management of Archax to the Executive Committee. Management of risks, ICARA and regulatory rule changes are delegated to the Audit, Risk and Compliance Committee. Oversight to ensure compliance with CASS regulation is delegated to the CASS Committee. Decision making on Board and Executive Committee remuneration is delegated to the Remuneration Committee and decision making on admissions or removals, to and from the Board is delegated to the Nomination Committee.



The Board has six directors, the directorships they hold outside of the company can be found below.

Directorships

As part of our governance process, Archax maintains a record of the directorships held by each member of the Board. The following directorships are outside the scope of this disclosure requirement and are therefore not disclosed:

- Directorships held within the same group
- Directorships held within an undertaking in which the firm holds a qualifying holding
- Directorships held in organisations that do not pursue commercial objectives.

Director Position	Number of Executive Directorships	Number of Non-Executive Directorships
Chair	2	4
NED (A)	1	0
NED (B)	0	0
NED (C)	0	0
CEO	0	0
CTO	0	0

Risk Committee

Consumer trust drives a stable market. To protect consumers and establish trust, we must have effective risk management structures in place. Whilst Archax is not required to establish a risk committee under MIFIDPRU, with consumer trust at the forefront of our business, we deem it necessary to maintain an Audit, Risk and Compliance Committee (ARCC).

The Audit, Risk and Compliance committee have responsibility for ensuring comprehensive risk identification, reporting, assessment and mitigation processes are followed across the firm. These activities are performed in line with the firm's risk tolerance and strategy, as agreed annually by the Board.

3. Risk Management

Primary responsibility for Archax's risk management rests with the Board, whilst delegating responsibility to the Audit, Risk and Compliance Committee ("ARCC") for the implementation and monitoring of the Risk Management Framework.

The ARCC is chaired by one of our Non-Executive Directors to maintain independence from the business, ensuring appropriate risk and risk mitigation arrangements are in place, reporting directly to the Board on these matters.

The Archax Risk Management Framework is documented in the Archax Internal Controls and Risk Management Framework ("ICRMF").

Archax has adopted the three lines of defence approach for risk management, as outlined below:

- For the First line of Defence, all risks are owned by the respective business areas. All business areas are responsible for the day-to-day identification, management, and reporting of risks, as recorded in our risk register. Any additional risks identified should be added to the risk register immediately and put forward to the ARCC along with mitigants for consideration.
- The Second line of Defence supports the business and provides risk management assurance. Risk and Compliance maintain this oversight, reporting directly to the Chief Compliance Officer
- The ARCC and Board currently acts as our Third line of Defence, providing independent assessment of the effectiveness of our Risk Management appetite and approach.

Risk Management Approach

The Board confirm that the risk management systems put in place are adequate with regard to Archax's risk profile and strategy as of 08/06/2023.

The key components of Archax's risk management approach include:

Key Risks

Archax considers the following as key risks to its business within our ICARA capital assessment:

i. Own Funds Risk

Operational risk -
The risk of Archax suffering loss due to inadequate or failed internal processes, people and systems.

Market risk -
The risk of Archax suffering a loss of liquidity due to the fluctuation of exchange rates.

Credit and Counterparty risk -
The risk that Archax will not be able to realise the value of the assets on its balance sheet.

Business risk -
Any risk resulting from a change to Archax's business plan, Remuneration Policy, or an adverse reputational impact.

ii. Concentration risk
Any risk resulting from exposure to each of Archax's counterparties, applying credit risk mitigation techniques and large indirect credit exposures.

iii. Liquidity risk
The risk that Archax does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can only access these resources at an excessive cost.

4. Own Funds and Own Funds Requirement

Own funds

Archax's own funds comprise exclusively of Common Equity Tier 1, the most robust category of financial resource. It is formed of share capital and share premium. A full breakdown of the firms regulatory Own Funds and a reconciliation to the balance sheet in the audited financial statements can be found in Annex 1.

	£'000
Fully Paid-Up Capital Instruments	5,733
Share Premium	2,075
Retained Earnings	(3,669)
CET1 Capital Elements, Deductions and Adjustments	(2,791)
Common Equity Tier 1 Capital	1,348
Additional Tier 1 Capital	-
Total Tier 1 Capital	1,348
Tier 2 Capital	-
Total Own Funds at 08/06/2023	**1,348**

Own funds requirement

Archax must maintain Own Funds that are *<u>at least equal to its own fund's requirement</u>* at all times. As per MIFIDPRU 4.3, this must be the highest of the firms:

i. K-Factor Requirement;
ii. Fixed Overhead Requirement; or
iii. Permanent Minimum Capital Requirement.

As of 08/06/2023, these are summarised as:

		£'000
K-Factors	Total K-AUM, K-CMH & K-ASA	-
	Total K-DTF & K-COH	-
	Total K-NPR, K-CMG, K-TCD & K-CON	-
	Total	-
Fixed Overhead Requirement		1,239
Permanent Minimum Requirement		150
Own Funds Requirement		**1,239**

Assessing adequacy of own funds

Archax's Audit Risk and Compliance Committee have determined the firm's own fund reserves through a risks-and-cost analysis of the firm's regular operations and wind down activities. This value has been validated through stress testing and found to adequately cover a range of possible, cost-generating, risk scenarios.

5. Remuneration

Remuneration objectives

Archax's remuneration policies, procedures and practices are designed to promote sound and effective risk management whilst discouraging excessive or inappropriate risk taking. This supports our strategic approach of attracting, retaining and motivating the best people, aligning with our business strategy, core values and long-term interests of the Company and our clients.

The Company's overall objective is to achieve consistent performance for its clients. The Company's income is dependent upon clients' funds under management, therefore the profit available for distribution under this policy is dependent upon the Company's overall performance. As such, the fulfilment of our objectives is interlinked with the best interests of our clients, which in turn is in line with this Policy.

Risk and remuneration

The Company has a low-risk appetite with no ability to proprietary trade, so does not take principal positions with its own capital. The Company does not lend and as such is not subject to material credit risk. The main categories of risk for the Company are accounted for in the design of the remuneration structure.

Remuneration approach

Archax applies a simple remuneration structure. Fixed remuneration includes basic salary, variable remuneration includes a discretionary annual bonus and long-term incentive plan. The discretionary bonus scheme is based upon the performance of the Company as a whole, with the proportion of the bonus pool allocated to individuals based on an annual assessment of their performance.

All employees are assessed annually, using a standard performance appraisal process based entirely on professional ability and pre-agreed objectives. The process does not allow for any subjectivity or determination based on any protected characteristic, as defined in the 2010 Equality Act. Non-standard forms of variable remuneration (such as guarantees, retention awards and severance pay etc.) are not regularly used and are not without due consideration and robust challenge from the CEO, HR, Compliance and Finance heads.

The Company will not make any variable remuneration awards that would impact detrimentally upon its capital base. As part of the process of determining how the annual discretionary bonus pool is allocated to individuals:

- The Remuneration Committee is provided with an overview of how the Company's estimated operating profits have been calculated and what the pre-agreed percentage of these profits will mean in terms of the size of the estimated bonus pool
- Line managers assign their allocations for any variable awards on an individual basis, based on the outcome of the performance appraisal process
- A review then takes place of all recommendations with the Chief Executive Officer and Head of HR regarding their awards and the overall spend is agreed with the Head of Finance
- The Remuneration Committee will then review the overall spend

Performance adjustments

Performance adjustment refers to the downward adjustment of variable pay paid to material risk takers. The Company will ensure that any variable pay awarded to material risk takers (including both the non-deferred and deferred element) is only paid or vested if it is sustainable according to the financial situation of the Company and justified by the performance of the company, department and individual.

The Company will apply malus to deferred variable pay when:

- there is reasonable evidence of the material risk taker's misbehaviour or material error;
- the Company and/or relevant department suffers a material downturn in its financial performance; and/or
- the Company and/or relevant department suffers a material failure of risk management

Clawback should be applied in cases of fraud or other conduct with intent or severe negligence which led to significant losses, and the clawback period should allow sufficient time for any potential risks to crystallise. The clawback period is three years from the date of award.

Material risk takers

The table below indicates the amount of fixed and variable pay awarded to the following categories of staff:

1) Board and Management
2) Material Risk takers (excluding Board and Management
3) All remaining staff employed during 1st January – 31st December 2022

Archax did not award any form of severance pay to its employees for the period assessed.

	Fixed Pay (£'000)	Variable Pay (£'000)	Number of Individuals
Board and Management	1,322	183	8
Other material risk takers	611	0	4
Non MRT staff	3,889	31	77

Annex 1

MIFIDPRU Annex 1R

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**	1,348	
2	**TIER 1 CAPITAL**	1,348	
3	**COMMON EQUITY TIER 1 CAPITAL**	1,348	
4	Fully paid up capital instruments	5,733	
5	Share premium	2,075	
6	Retained earnings	(3,669)	
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 4 1		
19	CET1: Other capital elements, deductions and adjustments	(2,791)	
20	**ADDITIONAL TIER 1 CAPITAL**	0	
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**	0	
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		

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
Flexible template - rows to be reported in line with the balance sheet included in the audited financial statements of the investment firm. Columns should be kept fixed, unless the investment firm has the same accounting and regulatory scope of consolidation, in which case the volumes should be entered in column (a) only. Figures should be given in GBP thousands unless noted otherwise.				
		a	b	c
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
		As at period end	**As at period end**	
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Intangibles	19		
2	Equipment	72		
3	Prepayments	85		
4	Accrued income	3		
5	Other debtors	140		
	Tax assets	20		
	Cash at bank	5,688		
xxx	**Total Assets**	**6,027**		
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1	PAYE	166		
2	Accruals & deferred income	14		
3	Trade creditors	40		
4	Other creditors	4,440		
xxx	**Total Liabilities**	4,660		
Shareholders' Equity				
1	Share capital	5,733		
2	Share premium	2,075		
3	P&L	(6,441)		
xxx	**Total Shareholders' equity**	1,366		

Own funds: main features of own instruments issued by the firm
Free text. A non-exhaustive list of example features is included below.
Private Placement
Examples
Public or private placement
Instrument type
Amount recognised in regulatory capital (GBP thousands, as of most recent reporting date)
Nominal amount of instrument
Issue price
Redemption price
Accounting classification
Original date of issuance
Perpetual or dated
Maturity date
Issuer call subject to prior supervisory approval
Optional call date, contingent call dates and redemption amount
Subsequent call dates, if applicable
Coupons/dividends
Fixed or floating dividend/coupon
Coupon rate and any related index
Existence of a dividend stopper
Convertible or non-convertible
Write-down features
Link to the terms and conditions of the instrument