

Archax MIFIDPRU 8 Disclosures 2024/5

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

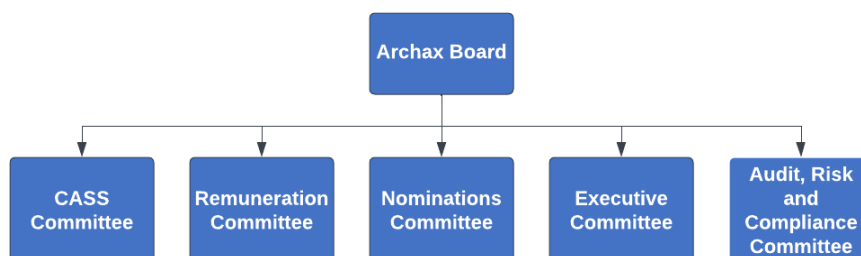
At Archax, we understand transparency, regulation, and risk management to be key drivers in building and maintaining consumer trust. As such, we ensure our governing body have the relevant knowledge, skills and attributes required to adopt these principles and make well-informed decisions that drive 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	0	9
NED (A)	1	0
NED (B)	0	1
NED (C)	0	0
CEO	0	0
CTO	0	0

Audit, Risk & Compliance 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.

Diversity & Inclusion

The Company is committed to encouraging equality, diversity and inclusion among its workforce and eliminating unlawful discrimination.

We recognise that any form of direct or indirect discrimination, harassment, or victimisation in the workplace, is unacceptable. We have therefore adopted an equal opportunities policy to ensure that all employees, officers, consultants, self-employed contractors, casual workers, agency workers, volunteers, interns and job applicants are treated fairly and without prejudice. We are committed to applying this policy throughout all areas of employment, including recruitment, job assignment, promotion, redundancy, training, education, tuition assistance, pay and conditions, disciplinary and grievance procedures, termination, and access to benefits. We are also committed to fulfilling all legal obligations under the relevant legislation and associated Codes of Practice. In all situations people will be judged solely on merit or ability.

The aim is for all employees to be truly representative of all sections of society and for each employee to feel respected and able to give their best.

3. Risk Management

Primary responsibility for Archax’s risk management rests with the Board, whilst delegating responsibility to the Audit, Risk and Compliance Committee 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”).

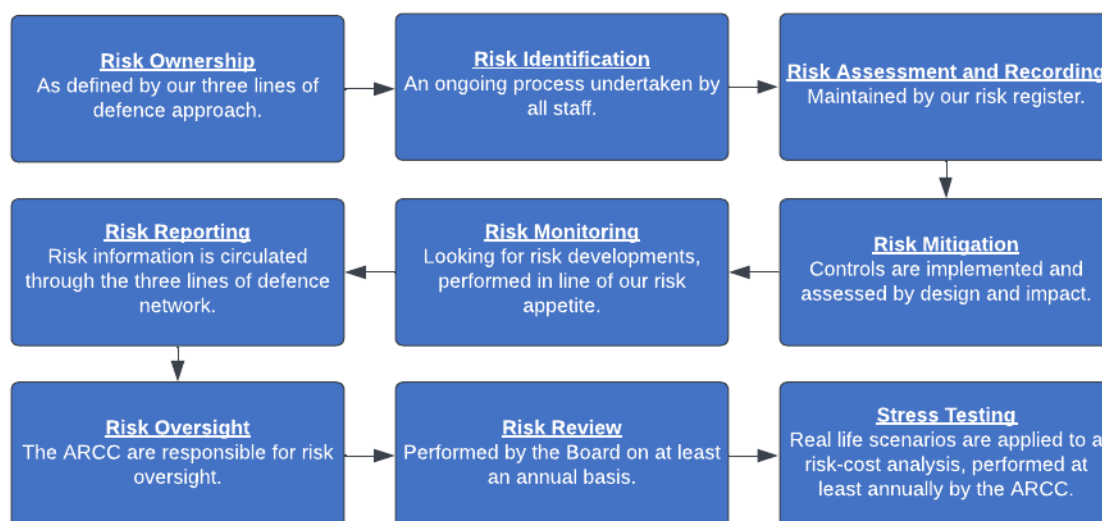
Archax has adopted the three lines of defence approach for risk management, as outlined below:

- 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 10/2023.

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



Key Risks

Conduct Risk

Conduct risk is the risk that the conduct of Archax or the employees of Archax unfairly impacts, undermines the integrity of the financial system or impairs effective competition to the detriment of consumers. Specifically, these are risks that arise from anything the Archax does that might impact on the FCA's statutory objectives of:

- Ensuring that the financial markets work well
- Consumer protection
- Protecting and enhancing the integrity of the UK financial system
- Promoting effective competition in the markets for financial services

Culture is an amalgamation of how well the firm communicates purpose and approach, sets "tone from the top", utilizes formal governance processes and structures and manages people related practices. Culture in financial services is widely accepted as a key root cause of the major conduct failings that have occurred within the industry in recent history.

Conduct and culture risk can arise from several sources, including:

- Ethics, Conduct and Integrity
- Governance
- Leadership
- Reputation and brand

Compliance risk

Compliance risk is defined as risk of loss due to breach of legal or regulatory obligations. This includes (but is not limited to), breach of FCA regulation, applicable EU law, UK statutory provisions, breach of contract, and litigation/ADR/mediation.

Operational risk

Operational risk is defined by the FCA as

"The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events."

Operational risks can be attributed to a wide range of sources; considering the size of complexity of Archax's business we consider the following sources of Operational risks to be relevant to Archax:

Employment practices and workplace safety:

Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.

Clients, products, and business practices:

Losses arise from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.

Execution, delivery, and process management:

Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

Internal fraud:

Losses due to acts of a type intended to defraud, misappropriate property, or circumvent regulations, the law or firm policy, excluding diversity/discrimination events, which involve at least one internal party.

External fraud and Cyber:

Losses due to acts of a type intended to defraud, misappropriate property, or circumvent the law, by a third party.

Business disruption and systems failure:

Losses arising from disruption of business or system failures.

Damage to or loss of physical assets:

Losses arising from loss or damage to physical assets from natural disaster or other events.

Financial risk

Credit and Counterparty risk

Credit risk is the default risk related to the holding of a financial instrument with counterparty risk being defined as a sub-category of credit risk in a scenario where a counterparty is unable to meet its contractual obligations under a specific contract. Details of how Archax manages liquidity risk is noted in Archax's ICARA.

Market Risk

Risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates. Details of risk description and management are noted in Archax's ICARA.

Liquidity risk

The risk that Archax, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost.

Systemic risk

Risk of disruption in the financial system with the potential to have serious negative consequences for the financial system and the real economy. Systemic risk may be inbound, i.e. the firm being impacted by a systemic failure in the market, or outbound, i.e. the firm's failure results in a systemic risk materialising.

Strategic risk

Risks of loss that arise from strategic and business decisions fall within this risk category. Strategic and business risks may not always be quantifiable or be subject to assumptions. Our approach to controls is therefore focused on having appropriate MI, research, analysis, oversight, approvals and monitoring of any business and strategic decisions ex-ante and ex-post to ensure we understand the impact of and can react to any ensuing consequences.

Strategic and Business risks may arise from the following:

- Business decisions
- Product and client portfolio
- Human capital and other resources
- Strategy and business model
- Strategic decisions
- Strategic implementation
- Technology, IT and infrastructure and software

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	-
Share Premium	9,733
Retained Earnings	(6,441)
CET1 Capital Elements, Deductions and Adjustments	(2,393)
Common Equity Tier 1 Capital	2,974
Additional Tier 1 Capital	-
Total Tier 1 Capital	-
Tier 2 Capital	-
Total Own Funds at 26/07/2024	2,974

Own funds requirement

Archax must maintain Own Funds that are at least equal to its own fund's requirement 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 26/07/2024, these are summarised as:

	£'000	
K-Factors	Total K-AUM, K-CMH & K-ASA	10
	Total K-DTF & K-COH	-
	Total K-NPR, K-CMG, K-TCD & K-CON	-
	Total	10
Fixed Overhead Requirement	1,751	
Permanent Minimum Requirement	150	
Own Funds Requirement	1751	

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 2023

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	1,928	46	11
Other material risk takers	273	26	2
Non MRT staff	4,469	388	71

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	2,974	
2	TIER 1 CAPITAL	2,974	
3	COMMON EQUITY TIER 1 CAPITAL	2,974	
4	Fully paid up capital instruments	9,733	
5	Share premium	2,075	
6	Retained earnings	(6,441)	
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	(2,393)	
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	-	

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	3		
2	Equipment	41		
3	Prepayments	81		
4	Accrued income	15		
5	Other debtors	1,720		
	Tax assets	-		
	Cash at bank	1,431		
xxx	Total Assets	3,291		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	PAYE	(193)		
2	Accruals & deferred income	(56)		
3	Trade creditors	(52)		
4	Other creditors	(13)		
xxx	Total Liabilities	(314)		
Shareholders' Equity				
1	Share capital	9,733		
2	Share premium	2,075		
3	P&L	(8,831)		
xxx	Total Shareholders' equity	2,977		

Own funds: main features of own instruments issued by the firm
<i>Free text. A non-exhaustive list of example features is included below.</i>
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