

Pillar III Annual disclosure 2023

MFEX Mutual Funds Exchange AB



Introduction

The purpose of this document is to assemble all information that MFEX Mutual Funds Exchange AB, org.nr. 556559-0634 ("MFEX") is required to disclose annually under Article 46 of Regulation (EU) No. 2019/2033 ("IFR"). The new regulation, IFR, entered into force on June 26, 2021, with the purpose of strengthening the link between risk-taking and capital requirements, which includes requirements on risk management and disclosure of information. The MFEX investment firm group was dissolved in Q4 2021, and MFEX is now part of the Euroclear banking group.

After the information has been authorized by the company's board of directors, this report is published in its entirety on www.mfex.com. The information on risk management, own funds and own funds requirements is also published in MFEX annual report.

Board members

MFEX's board of directors is composed of five members. The members have substantial knowledge and experience of the financial market. In the composition of the board and management, different cultures and gender, as well as experience from other financial operations are promoted.

Oliver Lagerström , Chairman
Nine other assignments

René-Pierre Azria
Three other assignments

Olivier Huby
Six other assignment

Philippe Laurensy
No other assignment

Paul Hurd
No other assignment

Sophie Lecloux
Five other assignment

Risk Committee

MFEX's Board of Directors has established a Risk and Compliance Committee comprised of a subset of board members with Risk and Compliance functions attending. The committee drafts questions and review reports on Risk and Compliance that must be approved or reported to the Board. The group meets at least four times per year.

Remuneration policy

The Board of MFEX has established group remuneration policy that include all personnel and management in the company.

The MFEX Board of Directors has set up a Remuneration Committee, consisting of a subset of board members with Human Resources function attending, to prepare the Board's work in this respect. The group meets at least two times a year.

The group remuneration policy describe how remuneration is determined, paid out, verified and methods used to identify personnel who may have a significant impact on the companies' risk profile. The group policy ensure a neutral approach with regard to all protected characteristics such as gender, religion and ethnicity. The full group remuneration policy is disclosed on MFEX website www.mfex.com/legal/publication-of-information.

Remuneration

The table below shows aggregated quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of MFEX (MRTs).

Aggregate information on remuneration during the financial year 2023

Category	Senior management		MRT (incl Sen. Mgmt)	
	Amount (TSEK)	No. of recipients	Amount (TSEK)	No. of recipients
Fixed Remuneration	2 791	2	5 997	5
Variable Remuneration	200	1	330	3
Deferred remuneration awarded for previous performance periods, split into:				
i) the amount due to vest in the financial year	n/a	n/a	n/a	n/a
ii) the amount due to vest in subsequent years	n/a	n/a	n/a	n/a
Deferred remuneration due to vest in the financial year that is paid out during the financial year	n/a	n/a	n/a	n/a
Guaranteed variable remuneration awards during the financial year	n/a	n/a	n/a	n/a
Severance payments awarded in previous periods, that have been paid out during the financial year	n/a	n/a	n/a	n/a
Severance payments awarded during the financial year, split into:				
i) the amount paid upfront	n/a	n/a	n/a	n/a
ii) the amount deferred	n/a	n/a	n/a	n/a
iii) the highest payment that has been awarded to a single person	n/a	n/a	n/a	n/a

Information on the distribution of variable remuneration is given in the table below.

Distribution of variable remuneration during the financial year 2023

Remuneration form	Paid out amount (TSEK)	Deferred amount (TSEK)
Cash	390	n/a
Shares	n/a	n/a
Share-linked instruments	n/a	n/a
Other	n/a	n/a

Investment policy

MFEX does not directly or indirectly own any shares that are admitted to trading on a regulated market and in which MFEX holds more than 5% of the voting rights.

Risk management objectives and policies

Risk is inherent in the business operations of MFEX. The risk management framework for MFEX allows the organization to continuously evaluate and assess the risk exposure. The risk management framework is an integrated part of the decision-making process of the company and thus contribute to the fulfilment of the objectives of the organization. Furthermore, the risk management framework incorporates strategies, processes and reporting lines that are necessary to continuously identify, assess, manage, control and report the risks associated with the business. As such the risk management framework is key for a true and fair internal capital and liquidity adequacy assessment.

Risk shall be kept at the lowest level possible while considering business strategy, market sentiment, regulatory requirements and capacity to absorb losses through earnings and capital. Risks that are not supported by established business plans shall not be taken. Risk management shall be conducted according to sound practice so that the relationship between risk and expected return is optimized.

Overview of MFEX risks and risk exposures

MFEX's operations primarily entail exposure to operational risks since the company does not conduct any lending activities or maintain their own trading book. MFEX is active in identifying and managing the operational risks that arise in the business. This is achieved by charting and monitoring the material processes, internal limits and risk indicators in operations. MFEX's risk function also performs regular controls and recurring risk analyses. MFEX's risk management is, moreover, subject to regular evaluation through internal audits. MFEX pays particular attention to ensure that operations are always conducted without disruptions and interruption which is achieved by using fully redundant solutions for key components such as power, network, workplace, data storage and computer capacity, as well as well-developed work with business continuity management.

According to IFR, risks are to be categorized into Risk-to-Firm ("RtF"), Risk-to-Client ("RtC"), Risk-to-Market ("RtM") and Liquidity risk. MFEX has categorized their risks according to the table below.

Assessed risks	Risk type	Risk area
Credit risk	RtF, RtC	Bank deposits and claims against fund companies
Market risk	RtF	FX positions held in trading process and FX positions held in rebates collection

Operational risk	RtC, RtF	Identified largest operational risks
Business risk	RtF	Risk that the company is not achieving its aimed, predicted financial results or the risk to its solvency or ability to meet capital requirements, for instance due to unexpected decrease in profitability; improper business decisions; lack of responsiveness towards changes impacting our business objectives
Liquidity risk	Liquidity	Risk that MFEX does not have liquid assets available to meet its short-term obligations.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's failure to meet its obligations. MFEX conducts no lending operations but is exposed to credit risk in the form of deposits in bank and trading accounts as well as custody activity and rebates collection. The credit risk that arises from bank deposits is a risk that targets the firm directly and is thus recognized as a risk to firm and shall be assigned to RtF. On the other hand, trading, rebate and fee collections is considered a risk to client since disturbances in this process could cause delays in payments and ultimately costs for the clients. These risks will therefore be assigned to RtC.

To limit the credit risk that arises from bank and trading accounts, MFEX deposits funds only with institutions/banks with a minimum rating requirement equivalent to a long-term S&P rating of A or short-term minimum rating of A-1. MFEX further continuously monitors the development of the deposit bank rating, and the risk control function provides quarterly reports to the board. To limit credit risk that arises from the rebates collection operations MFEX has a distributor agreement which allows for MFEX to retrieve any advance rebate payments to distributors if a fund company defaults in paying rebates to MFEX. Further, MFEX is also restrictive and will not enter into fund company agreements with a current or expected distressed financial situation.

Market risk

MFEX is not engaged in trading on its own books and, due to its business model, MFEX is exposed to market risk primarily in the form of FX risk, which is materialized in the Trading- and the Rebates collection processes. Market risk is a risk that targets the firm directly and is thus recognized as a risk to firm and shall be assigned to RtF.

Market risks that arise from trading and custody accounts are limited by adding an additional spread to exchange rates to cover for the risk of potential losses due to movements in currencies. Open FX-positions in the trading flow are monitored on a daily basis. Market risks that arise from rebates collection is limited by performing a currency exchange to cover for remaining currency differences after netting assets and liabilities have been done.

Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events. It is inherent in every business organisation and covers a wide spectrum of issues, including the following categories:

- Legal Risk
- Compliance Risk
- HR Risk

- Personnel Risk
- Process and Product Risk
- IT Risk
- Third party Risk

The operational risks affect both the firm directly and the clients, depending on the individual risk. The operational risks that affect the firm are those that affect the support functions such as Finance or Human Resources and the control functions and are assigned to RtF. The operational risks that affect the clients are mainly linked to the Operations and IT functions and are assigned to RtC.

To identify and assess operational risk for MFEX and its branches self-assessments are performed. Relevant operational risks are identified and their materiality is assessed by determining inherent and residual risk in terms of impact and probability and taking into account the control environment in the analysis.

The technical development and support of MFEX's technical trading platform and IT security is highly important for sound and long-term profitability. It is therefore part of MFEX's strategy to constantly develop and improve its IT system. MFEX has implemented processes with efficient controls of system development, change management, incident management and authorisation management that are also part of the audit in the MFEX ISAE 3402 report. To ensure the appropriate handling of classified information in terms of availability, accessibility, accuracy and traceability, MFEX has devised and implemented an information security policy, Group Policy for Information Security. Examples of risk of losses arising due to external events outside of MFEX's control include fire on MFEX's premises, burglary, prolonged power failure and technical breakdowns. These risks have been minimised as MFEX has created a fully redundant solution for all key components, such as power, network, workplace, data storage and computer capacity. This is documented in the MFEX Group Policy BCMS (Business Continuity Management System).

Business risk

Business risk is the risk of decreasing revenues due to business climate changes, political decisions, economic recession, and similar macro-factors inherent to an organization's operations and the environment it operates in that may impair its ability to provide returns on investment. The primary business risk for MFEX is the loss of key clients (distributors) through changes in market demand. Business risk has an effect on the firm directly and are therefore assigned to RtF.

The client base has steadily been increasing during the last years and MFEX focuses on nurturing a close relationship with its largest clients and is continuously working to expand the client base.

Liquidity risk

Liquidity risk is the risk that MFEX does not have liquid assets available, or available without incurring significant cost, to meet its short-term obligations. MFEX is exposed to liquidity risk primarily through its operational expenses and in the process of rebates collection where fund distributors are to an extent paid before MFEX receive payment from the fund companies, and when early payments of redemption orders are made towards Distributors. The liquidity risks taken shall be limited, and no speculative elements shall occur in the daily operations. MFEX has assessed its business to be less complex and the company does not have a role as liquidity guarantor in the market.

Liquidity is continuously monitored and procedures for the management of potential or current liquidity deficit have been established which describes the minimum level of liquidity that MFEX shall hold. This includes liquidity reviews before payment of non-custody rebates to distributors and early payments of redemption orders, as well as recurring review of reallocation of liquidity between banks. Further details are found in the Policy on Liquidity Risk Management.

The Board has decided that the liquidity risk shall be limited and no speculative elements shall occur in the day-to-day operations. Available liquidity shall consist of investments in treasury funds, term deposits and holdings at banks that meet the requirements of Article 43 of the IFR, which corresponds to at least one third of the requirement based on fixed expenses in accordance with Article 13 (1) of the IFR ("Regulatory requirement under IFR"). A larger internal limit is used for management monitoring of the liquidity situation as defined in the Policy on Risk Appetite and Risk Limits. The MFEX Finance function manages the on balance sheet liquidity flows and must immediately inform Risk Control and the CEO if the total liquidity is less than or may be less than the liquidity limit based on, for example, forecasts.

Capital adequacy analysis

For the determination of MFEX's statutory capital requirements, the Act (2014:968) on special supervision of credit institutions and investment firms and IFR apply.

IFR (Investment Firms Regulation) /IFD (Investment Firms Directive) replaced CRR/CRD for all securities companies during the year from 26 June 2021. During the first 5 years, there are transition rules implying that the companies can apply a lower capital adequacy requirement which is equivalent to two times the Pillar 1 requirement according to the version of CRR Regulation (EU) No. 575/2013, which would have been applicable if MFEX had continued to be covered by the capital adequacy requirements in the regulation in its changed wording according to Regulation (EU) 2019/630. As a consequence of the acquisition by Euroclear, MFEX investment firm group was dissolved in Q4 2021, and MFEX is now part of the Euroclear banking group.

Internal capital and risk assessment (ICARA)

MFEX shall make an assessment of the internal Pillar II capital requirement (ICARA). This assessment is forward-looking and is based on the company's strategic plans. In the assessment, all significant risks must be taken into account. The assessment is conducted by comparing the regulatory capital requirements with the company's internally assessed capital requirements. If any of the internally assessed requirements exceeds the regulatory requirement, the difference is allocated as a supplement.

The ICARA report is prepared by MFEX at least once per year, or more frequently if significant changes have occurred in the firm. The risk function is responsible for the implementation of the report. The ICARA is the basis for current and future operations and includes a financial buffer for unforeseen events based on stress tests. The process also includes assessing whether management and control is effective in managing and controlling MFEX risks. The ICARA is used as a basis for decisions regarding the capital structure in, for example, decisions on dividends.

The ICARA exercise conducted 2024 and approved by the Board demonstrates that MFEX has sufficient projected financial resources at its disposal to cover the risks to which the company is or could be exposed to during the foreseeable future.

Capital requirement – Pillar I

According to IFR, the new Pillar I requirement is based on the highest of the Permanent minimum capital requirement, the K-factor requirement and Fixed overheads requirement. MFEX has chosen to apply the transitional provisions according to Article 57 of IFR, which limits the capital requirement to a maximum of twice the capital requirement according to CRR.

Permanent minimum capital requirement

In accordance with Article 14 of IFR, MFEX has a minimum capital requirement corresponding to KEUR 150.

K-factor requirement

The K-factor requirement is calculated for RtC, RtF and RtM in accordance with Article 15 of IFR. A summary of the company's risks related to the above categories is shown in the table below.

Risk-to-Client (RtC)	The company calculates a capital requirement based on the K-factors K-CMH, K-ASA and K-COH in the category RtC.
Risk-to-Market (RtM)	The company has no exposures in the category RtM.
Risk-to-Firm (RtF)	The company calculates a capital requirement based on the K-factor K-DTF in the category RtF.

An evaluation of MFEX K-factor requirements is given in the table below.

K-factor requirement, KEUR

Risk category	Amount		K-factor requirement	
	2023-12-31	2022-12-31	2023-12-31	2022-12-31
RtC			28 149	38 977
– Of which: K-CMH	63 840	67 299	255	269
– Of which: K-ASA	69 378 064	96 425 982	27 751	38 570
– Of which: K-COH	142 833	137 546	143	138
RtF			165	296
– Of which: K-DTF	165 311	295 538	165	296
RtM			-	-
Total			28 315	39 273

Fixed overheads requirement

The capital requirement based on fixed overheads is calculated as 25% of the previous year's fixed overheads in accordance with Article 13 of IFR. A summary is given in the table below.

Fixed overheads requirement, KEUR

Entry	Amount	
	2023-12-31	2022-12-31
Total expenses of the previous year after distribution of profits	51 497	63 948
Total deductions	-	-
Total fixed overheads of the previous year	51 497	63 948
Fixed overheads requirement	12 874	15 987

Transitional provisions

The capital requirement under the transitional provisions under Article 57 of the IFR is calculated as two times 8% of the total risk exposure amount in accordance with CRR.

Total Pillar I requirement

The total capital requirement (Pillar I) is shown in the table below.

Total capital requirement, KEUR

Entry	Amount	
	2023-12-31	2022-12-31
Permanent minimum capital requirement	150	150
Fixed overheads requirement	12 874	15 987
K-factor requirement	28 315	39 273
Capital requirement based on transitional provisions	36 324	34 405
Total capital requirement (transitional provisions)	36 324	34 405

Information on own funds, KEUR

**Template EU IF CC1.01 -
Composition of regulatory own
funds (Investment firms other
than small and non-
interconnected)**

		a)		b)
		Amounts		Source based on reference numbers/letters of the balance sheet in the audited financial statements
Common Equity Tier 1 (CET1) capital: instruments and reserves				
		2023-12-31	2022-12-31	
1	OWN FUNDS	106 278	104 908	
2	TIER 1 CAPITAL	106 278	104 908	
3	COMMON EQUITY TIER 1 CAPITAL	106 278	104 908	
4	Fully paid up capital instruments	169	169	FPCI
5	Share premium	10 351	10 351	SP
6	Retained earnings	99 012	113 288	RE
7	Accumulated other comprehensive income	249	-21	OCI
8	Other reserves	5 050	4 782	RES
9	Minority interest given recognition in CET1 capital			
10	Adjustments to CET1 due to prudential filters			
11	Other funds			
12	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-8 552	-23 662	
13	(-) Own CET1 instruments			
14	(-) Direct holdings of CET1 instruments			
15	(-) Indirect holdings of CET1 instruments			
16	(-) Synthetic holdings of CET1 instruments			
17	(-) Losses for the current financial year	-	-15 260	LY
18	(-) Goodwill			IA
19	(-) Other intangible assets	-607	-1 020	IA
20	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-6 934	-6 306	DTA
21	(-) Qualifying holding outside the financial sector which exceeds 15% of own funds			
22	(-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds			
23	(-) CET1 instruments of financial sector entites where the institution does not have a significant investment			
24	(-) CET1 instruments of financial sector entities where the institution has a significant investment			
25	(-)Defined benefit pension fund assets			
26	(-) Other deductions	-1 011	-1 076	OD

27	CET1: Other capital elements, deductions and adjustments			
28	ADDITIONAL TIER 1 CAPITAL			
29	Fully paid up, directly issued capital instruments			
30	Share premium			
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1			
32	(-) Own AT1 instruments			
33	(-) Direct holdings of AT1 instruments			
34	(-) Indirect holdings of AT1 instruments			
35	(-) Synthetic holdings of AT1 instruments			
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment			
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment			
38	(-) Other deductions			
39	Additional Tier 1: Other capital elements, deductions and adjustments			
40	TIER 2 CAPITAL			
41	Fully paid up, directly issued capital instruments			
42	Share premium			
43	(-) TOTAL DEDUCTIONS FROM TIER 2			
44	(-) Own T2 instruments			
45	(-) Direct holdings of T2 instruments			
46	(-) Indirect holdings of T2 instruments			
47	(-) Synthetic holdings of T2 instruments			
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment			
49	(-) T2 instruments of financial sector entities where the institution has a significant investment			
50	Tier 2: Other capital elements, deductions and adjustments			

Template EU IFCC2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements, KEUR

		a		c
		Balance sheet as in published/ audited financial statements		Cross reference to EU IF CC1
		As at period end		
Assets – Breakdown by asset classes according to the balance sheet in the published/audited financial statements				
		2023-12-31	2022-12-31	
1	Lending to credit institutions	61 853	29 321	
2	Bonds and other interest bearing securitites	-	10 000	
3	Shares and participations in Group companies	97 846	103 129	
4	Shares and participations, other	11 823	8 501	
5	Intangible assets	3 574	3 257	IA
6	Tangible assets	897	426	
7	Deferred tax assets	7 945	7 381	DTA, OD
8	Other assets	98 073	80 837	
9	Prepaid expenses and accrued income	9 559	10 371	
10	Total Assets	291 569	253 222	
Liabilities and Provisions - Breakdown by liability classes according to the balance sheet in the published/audited financial statements				
1	Other liabilities	173 523	135 634	
2	Accrued expenses and deferred income	2 421	3 704	
3	Provisions	796	575	
4	Total Liabilities and Provisions	176 740	139 913	
Shareholders' Equity				
1	Share capital	169	169	FPCI
2	Statutory reserve	1 453	1 453	RES
3	Development expenditures fund	3 597	3 329	RES
4	Free Share premium reserve	10 351	10 351	SP
5	Fair value reserve	249	-21	OCI
5	Retained earnings	97 665	113 288	RE
6	Profit/loss for the year	1 347	-15 260	LY
7	Total Shareholders' equity	114 830	113 309	

Template EU IF CCA: Own funds: main features of own instruments issued by the firm

		a
1	Issuer	MFEX Mutual Funds Exchange AB
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	Swedish law
5	Instrument type (types to be specified by each jurisdiction)	Share capital
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	0,169 MEUR
7	Nominal amount of instrument	168 729,55 EUR
8	Issue price	168 729,55 EUR
9	Redemption price	N/A
10	Accounting classification	Equity
11	Original date of issuance	1998-09-03
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
22	Existence of step up or other incentive to redeem	N/A
23	Noncumulative or cumulative	N/A
24	Convertible or non-convertible	N/A
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	N/A
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A

35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (signposting)	See Articles of Association www.mfex.com/legal/publication-of-information
(1) Insert 'N/A' if the question is not applicable		

Stockholm, 7th of June 2024