

IFPR: MIFIDPRU Disclosure

For the period ended December 31, 2023

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1 Introduction

The Investment Firms Prudential Regime ('IFPR') requires all MiFID investment firms to make certain public disclosures.

1.1 Purpose

The purpose of this document is to set out Cambridge Risk Mercantile Management (UK) Ltd.'s ('CMRM') required public disclosures in relation the following topics Governance arrangements, Own Funds and Own Fund Requirement, investment policy and remuneration.

1.2 Background

IFPR is the Financial Conduct Authority's ("FCA") new prudential regime for MiFID investment firms which aims to streamline and simplify the prudential requirements for UK investment firms. IFPR came into force on 1 January 2022, and its provisions apply to CMRM as an FCA-authorized and regulated MIFIDPRU firm (FRN: 596682).

1.3 Scope and Application

The FCA has implemented IFPR through rules contained in the MIFIDPRU Sourcebook. Chapter 8 of MIFIDPRU sets out the disclosure requirements, and this document has been prepared in accordance with these rules. The IFPR regime distinguishes between small and non-interconnected investment firms ("SNI" firms) and non-SNI firms.

The level of compliance with certain rules that will apply to a firm within the scope of the IFPR will be determined by whether or not the firm is an SNI or a non-SNI firm. SNI firms are defined in Chapter 1 of the prudential sourcebook for MiFID firms. MIFIDPRU 1.2 lists 10 criteria, all of which must be satisfied for a firm to be classified as an SNI firm. Two of the criteria which preclude firms from being a defined are those that have been granted permission to deal on their own account or to hold client money in the course of MiFID business. Consequently, CMRM is classified as a non-SNI firm and must meet the disclosure requirements set out under MIFIDPRU 8.1.

1.4 Frequency of disclosures

These disclosures will be published at least once a year, alongside the publication of the Firm's annual accounts. The disclosure may be updated more frequently in the event of a material business change.

2 Governance arrangements (MIFIDPRU 8.3)

CMRM has a Board of Directors ('the Board') which oversees the management of CMRM. The Board meets on an annual basis and on other occasions as required.

While CMRM sits within the larger Corpay Group ('Group'), the Board is responsible for establishing and monitoring the effectiveness of the firm's corporate governance framework, and approving the firm's policies, strategic direction, and risk appetite.

The Board has a duty to act in accordance with its powers and the directors must:

- Act in accordance with the company's constitution, and
- Only exercise powers for the purposes for which they are conferred.

To meet its responsibilities, the Board has delegated the day-to-day running of the firm to the Managing Director and the senior management team.

2.1 Conflicts of Interest

Information for dealing with conflicts of interest is set out in the Conflicts of Interest Policy which is approved by the Board. The policy sets out how the firm seeks to prevent and deal with conflicts of interest if they arise. Directors are required to disclose any business interests that may result in actual or potential conflicts of interest with those of CMRM. If a conflict or potential conflict situation arises, the directors must seek authorisation from the Board.

2.2 Directorships

The directors do not hold directorships outside of the group.

2.3 Diversity

CMRM are committed to providing a workplace that seeks and respect diversity and inclusion at every level of the business. CMRM believes that anyone who joins the business should benefit from the opportunity to develop and grow within the firm.

2.4 Compliance and Risk Committee

The firm is not required to establish a Risk Committee as it meets the conditions set out in MIFIDPRU 7.1.4R.

3 MIFIDPRU 8.4 Own Funds

3.1 Composition of CMRM's Regulatory Own Funds

CMRM's own funds comprises of common equity tier 1 capital (CET1). This includes allotted, called up and fully paid share capital (20,325,000 Ordinary shares of £1 each) and audited retained earnings.

CMRM has a £435K capital contribution, comprising of stock-based compensation. This does not qualify as CET1 capital, and the firm does not include this in its calculation of own funds.

Table 1: Composition of Regulatory Own Funds

	Item	Amount (£'000)	Source based on reference numbers/ letters of the balance sheet in the audited financial statements
1	OWN FUNDS	51,589	
2	TIER 1 CAPITAL	51,589	
3	COMMON EQUITY TIER 1 CAPITAL	51,589	
4	Fully paid-up capital instruments	20,325	Note 13
5	Share Premium		
6	Retained earnings	34,766	Statement of Changes in Equity
7	Accumulated other comprehensive income		
8	Other reserves	(3,370)	Statement of Changes in Equity Note 20
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(132)	Note 7
19	CET1: Other capital elements, deductions, and adjustments		
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		

Note: In March 2023 CMRM's share capital was increased by £20M following a capital contribution from Cambridge Mercantile Corp. (UK) Limited. This increased CMRM's ordinary shares by a further 20,000,000 of £1 each. This, along with 2023 retained earnings and other reserves account for the difference in own funds versus 2022. Other reserves are a merger reserve entry, representing the difference between purchase price and book value of net assets received in relation to the acquisition of Global Reach Markets Limited.

3.2 Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The table below shows a reconciliation of CMRM's own funds with the audited assets and liabilities of the firm. This breakdown reflects the balance sheet within CMRM's audited financial statements for FY2023.

Table 2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		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 (£'000) 2023	As at period end (£'000) 2022*	
Assets				
1	Fixed Assets	8	495	
2	Non-current AFEX intercompany		71,589	
3	Non-current derivative financial asset	16,539	793	
4	Cash and cash equivalents	4,841	5,619	
5	Restricted cash	3,624		
5	Debtors	95,524	1,555,501	

6	Derivative financial assets	32,832	6,771	
7	Corporate Tax Receivable	928		
8	Deferred tax asset	132		11
9	Intangible Assets		2,615	
10	Other Assets		35	
11	Investments		325	
12	Non-Current Fleetcor intercompany		225,806	
13	Goodwill		618	
	Total assets	154,428	1,870,167	
Liabilities				
1	Creditors	38,916	1,774,836	
2	Corporate tax payable		1,982	
3	Derivative financial liabilities	8,170	4,650	
4	Intercompany notes payable	53,062	73,202	
5	Non-current derivative financial liabilities	2,124	364	
6	Deferred tax liability		692	
	Total liabilities	102,272	1,855,726	
Shareholders' Equity				
1	Called up share capital	20,325	1,500	4
2	Capital contribution	435	780	
3	Merger Reserve	(3,370)		8
4	Retained earnings	34,766	12,161	6
	Total Shareholders Equity	52,156	14,441	

**Due to differing statutory deadlines the audited accounts under regulatory scope of consolidation for 2023 are not available at the time of publishing.*

Compared to previous notification period notable items for CMRM include:

- Shareholder equity includes a merger reserve entry, representing the difference between purchase price and book value of net assets received in relation to the acquisition of Global Reach Markets Limited.
- Increase in called up share capital reflecting £20M capital injection in March 2023.
- Intercompany receivables and payables presented gross rather than net, reflected in debtor and creditor balances increases.
- Increase in cash at bank following cash injection for liquidity purposes.
- Restricted cash presented on balance sheet in 2023 due to change in accounting policy.

4 Own Funds Requirements (MiFIDPRU 8.5)

4.1 Own funds

Own funds CMRM is subject to an own funds requirement equalling that of its K-factor calculation, as this is the higher that the firm's permanent minimum capital and fixed overhead requirements.

Table 3: Own Funds Requirement

	£,000
a) Permanent Minimum Capital Requirement	750
b) K-factor requirement	10,825
i) K-CMH	34
ii) K-DTF	3
iii) K-NPR, K-TCD, K-CON	10,788
c) Fixed Overhead Requirement	2,866
Own funds requirement (higher of a, b or c)	10,825

The own funds requirement for 2023 period end reduced compared to the 2022 equivalent. K-CMH, K-NPR, K-TCD and K-CON are all activity dependent so will naturally change as that fluctuates. The methodology for K-DTF was updated in the period.

4.2 Assessment of adequacy of own funds

a) Internal Capital Adequacy and Risk Assessment ('ICARA')

Under the IFPR CMRM is required to ensure that sufficient resources are maintained to satisfy the Overall Financial Adequacy rule ("OFAR"). This is in terms of both own funds and liquid assets with the ultimate outcome to ensure the firm is a) able to remain financially viable throughout the economic cycle and b) to enable an orderly wind-down, minimising harm to consumers and market participants.

In order to manage this CMRM completes its ICARA process annually, as a minimum, which reviews risks faced in ongoing operations and includes quantification of additional capital resources required to mitigate the risks identified.

The firm has implemented an early warning threshold for own funds and liquid assets requirements which is monitored to allow the firm to act accordingly if required.

The ICARA is undertaken on a proportionate basis, considering the Firm's size and the nature and complexity of its activities, and is reviewed and approved by CMRM's Board of Directors.

b) Own funds Threshold Requirement

After assessing the costs of an orderly wind-down, potential material harms and fixed costs for continuing business, CMRM is satisfied that the firm's K-factor requirement is sufficient to address residual risks and costs identified and has therefore adopted this as the own funds threshold requirement.

c) Liquidity

Through the ICARA process CMRM has determined its Liquid Asset Threshold Requirement as the amount of liquid assets required to fund ongoing operations, with consideration given to anticipated periods of stress.

5 Remuneration (MiFIDPRU 8.6)

Retention of talented employees is critical to executing the firm's business strategy successfully. Remuneration is, therefore, a key component of the costs the firm incurs to generate revenues, similar to cost of goods sold or manufacturing costs in other industries. The aim of a remuneration policy is to ensure that remuneration arrangements reward employees appropriately, but also promote sound and effective risk management. In particular, the remuneration arrangements aim to avoid excessive risk-taking. It is also designed to ensure that, when taking decisions about remuneration, the impact of reward arrangements on CMRM's long-term sustainability are considered.

In particular, effective remuneration practices should:

- (i) Encourage a sense of teamwork and drive behaviours that are aligned to the interests of the firm and its customers.
- (ii) Evaluate performance on a multi-year basis.
- (iii) Discourage employees excessive risk-taking.
- (iv) Allow an institution to attract, retain and develop talent at all levels of the organisation.
- (v) Align aggregate remuneration for the firm with performance over the cycle and
- (vi) Promote a strong risk management & control environment.

Material Risk Takers ('MRTs')

In accordance with the FCA rules, CMRM is required to identify the categories of staff whose professional activities are deemed to have a material impact on the risk profile of the firm. These are referred to as 'Material Risk Takers', and CMRM ensures that it applies all the necessary remuneration requirements to these staff. 'Material Risk Takers' are identified in line with the criteria included within relevant guidance, but broadly, they include those individuals whose role means they can expose the CMRM and its clients to material risk.

Compensation Arrangement

CMRM aims to deliver total remuneration (which may be a combination of fixed and variable compensation) at a level that is aligned to the market for each individual role, whilst also rewarding the overall performance of the firm and the individual's performance.

Remuneration at CMRM can be made up of a combination of two broad components:

- Basic fixed remuneration (e.g., salary plus any allowances) in line with the employee's professional experience and role within the firm.
- Variable remuneration (e.g. bonus, commissions) that reflects performance - which may be subject to performance adjustment.

Any variable remuneration, including any deferred portion, is paid only if it is sustainable according to the financial situation of the firm as a whole, and is based on the performance of the firm, the business unit (team) and the individual concerned.

Table 4 provides an overview of the fixed and variable remuneration for CMRM in 2023.

Table 4: Remuneration overview

£	Senior management (2) and MTRs (3)	Other staff
Fixed Remuneration	294,317	913,077
Variable Remuneration	1,378,466	3,382,796
Total	1,672,783	4,295,873

Variable remuneration breakdown

Cash based income	1,263,014	
Share linked income	115,452	
Deferred income		

The total remuneration in 2023 increased compared to the previous period. The primary reasons for this are an increase in other staff members following the acquisition of Global Reach Markets and variable stock issues to established team members.

Variable Remuneration

For employees with variable remuneration component, this generally paid as a cash remuneration and sometimes as share-based remuneration. The variable remuneration can vary and is dependent on individual performance.

Clawback Arrangements

Clawback arrangements is in place for applicable staff within CMRM. The arrangement may be used in the following circumstances:

- Gross misconduct.
- The individual failed in meet the relevant professional standards.
- The firm suffers material failure resulting in FCA censure and / or penalties.

Severance Pay

Any payments relating to the early termination of a contract (severance pay) will reflect the individual's performance over time and will be designed in a way which does not reward failure or misconduct. In determining the amount of a severance payment, the firm will always seek to minimise the cost while complying with contractual terms and take into account the circumstances in place at the time.

The following (illustrative) criteria may be taken into account for the purposes of determining the amount of a severance payment (but not limited to):

- The reasons for the individual's early termination of employment,
- The length of an individual's service,
- The seniority of the individual's role and
- The potential costs of legal fees and settlement costs.

Severance pay for MRTs under the IFPR will generally need to be included in the ratio between variable and fixed remuneration although there are certain circumstances where the amounts can be excluded from the calculation. Where any severance pay is made to MRTs, the same general rules for variable remuneration will apply including deferral, payments in shares/instruments, retention periods (where appropriate), malus and clawback.

6 Investment Policy (MIFIDPRU 8.7)

The firm does not hold more than 5% of the voting rights in any listed company.