



EMFI Securities Limited

MIFIDPRU 8 Disclosure – 31 December 2023

Introduction

The Financial Conduct Authority (“FCA” or “regulator”) in the Prudential sourcebook for MiFID Investment Firms in the FCA Handbook (“MIFIDPRU”) sets out the detailed prudential requirements that apply to EMFI Securities Limited (“EMFI” or the “Firm”). Chapter 8 of MIFIDPRU (“MIFIDPRU 8”) sets out public disclosure rules and guidance with which the Firm must comply, further to those prudential requirements.

EMFI is classified under MIFIDPRU as a Non-small non-interconnected MIFIDPRU investment firm (“Non-SNI MIFIDPRU Investment Firm”). As such, the Firm is required by MIFIDPRU 8 to disclose certain information as set out below.

The purpose of these disclosures is to give stakeholders and market participants an insight into the Firm’s culture and to assist stakeholders in making more informed decisions about their relationship with the Firm.

This document has been prepared by EMFI in accordance with the requirements of MIFIDPRU 8 and is approved by the Board. Unless otherwise stated, all figures are as at the Firm’s **31 December 2023** financial year end.

Risk Management Objectives and Policies

The Firm believes that the risk management processes are committed to developing and refining the technical aspects of EMFI’s existing stress testing, particularly how the scenario generation and impact which will be increasingly reported and used within the business.

The risk capacity of EMFI is influenced by the following strategic boundary conditions:

- Maintain a sustainable risk profile.
- Maintain a Risk Appetite that is consistent with EMFI’s business and operations.
- Ensure that the business is prudently funded and capitalised at all times and to be resilient at times of stress. This may be aided by relying on one owner who may unilaterally make decisions.
- Maintain a stable threshold of profit generation consistent with EMFI’s strategic plans.
- Manage concentrations and ensure that such exposures remain within predefined limits.
- Continue to minimise risk exposure on credit, market and settlement risk. This is primarily driven by quality of clearer and asset management clients.
- Comply with all regulatory requirements both prudential, conduct of business and any other relevant rules and guidance.

EMFI’s Risk Appetite is directly linked to the operations and performance of its business lines, continued generation and retention of margin profits and capital planning.



EMFI's Risk Capacity is the maximum level of risk that EMFI can assume given the Firm's financial resources, earnings profile and obligations to stakeholders. EMFI's Risk Capacity is a maximum measure and it is not intended to be reached, therefore there is a designated buffer between the Risk Appetite and EMFI Risk Capacity. The difference between Risk Appetite and Risk Capacity is represented as EMFI's Risk Tolerance. EMFI's Risk Tolerance is assessed by undertaking stress testing.

Senior Management conduct continuous monitoring of the application of the Risk Appetite to ensure that the aggregate risk profile of EMFI (this includes all the material risks as defined within EMFI's Risk Management Framework) remains within the prescribed limits and tolerances as determined by the Board.

EMFI divides the risks inherent in its business into three distinct risk types:

- Category 1: Risks that are deemed to be material and are primarily mitigated by the effectiveness of EMFI's oversight and control arrangements
- Category 2: Risks that are mitigated by a combination of EMFI's oversight and control arrangements but where a capital allocation is deemed to be prudent
- Category 3: Risks that are primarily mitigated by some other action.

The scope of this document extends to the following Key Risks which have been expanded in the Risk Identification: for 'Additional Own Funds Requirement to Address Risks from Ongoing Activities' for a Non-SNI Firm.

Trading and Counterparty Risk

EMFI Securities trades over-the-counter (OTC) on a principal basis. Since September 2022, it has received trade flow both from clients and from its own trading desk. All trades are OTC, meaning counterparty default risk is not mitigated by a central clearer, as is the case with exchange-traded equities or futures using a central counterparty (CCP). The vast majority of EMFI's trades are with regulated counterparties. To manage exposure, EMFI has developed intra-day monitoring technology that tracks total cash exposure to each counterparty.

Trading activity in 2023 has not resulted in settlement risk exceeding the MiFIR/MIFIDPRU T+6 threshold, nor has there been a failure to settle beyond T+6. As such, the CRR trading book capital requirements are not triggered.

If a counterparty fails in a matched principal transaction, EMFI must still honour the other leg of the trade at the agreed settlement price. This creates potential exposure, as the Firm would need to enter the market to buy (or sell) the relevant security for onward delivery (or cash). If the market moves against EMFI in the meantime, the resulting loss must be borne by the Firm.

Market Risk

The majority of EMFI's trading is OTC, which presents the risk of counterparties failing to deliver securities. This could result in EMFI being subject to buy-ins, or needing to re-enter the market to fulfil its obligations under a matched principal transaction.

The volume, size, and market and credit quality of counterparties (both buy-side and sell-side), as recorded in EMFI's Client Relationship Management tool, give the Firm confidence in its estimates of counterparty risk.



Reception & Transmission of Orders or Executing Client Orders

Clients place orders via email, EMFI's proprietary system (where they may leave, but not execute, orders), Bloomberg Chat, or phone. There is a risk of human error when manually executing client instructions, which may result in the Firm needing to re-enter the market to rectify an incorrectly executed trade.

Trading Activity on the Firm's Own Account

The Firm is aware of the capital implications of failed matched principal trades and has allocated own funds accordingly. EMFI did not execute any proprietary trades for its own trading book in 2023.

Trading Activity in Clients' Names

EMFI conducts all trades in its own name, using a back-to-back structure with separate legs to receive from institutional counterparties and sell to clients, and vice versa.

Concentration Risk

EMFI faces concentration risk due to its focus on emerging international fixed income. However, the Firm specialises in Latin American jurisdictions and also covers regions in Africa, the Middle East, and South Asia. Trading volumes have remained resilient during periods of market stress — for instance, during the significant interest rate hikes by major central banks in 2022. Prior to that, the COVID-19 pandemic constrained consumer activity, but had limited impact on the wholesale markets relied upon by sovereign and quasi-sovereign issuers.

Governance Arrangements

EMFI is expected to demonstrate that it has robust governance processes that ensure that the capital requirements of EMFI are prudent and related to the aggregate risks of business activities.

EMFI is required to comply with a range of external governance requirements and guidelines in respect of capital adequacy and composition which are being continually updated and reviewed. In order to manage capital effectively throughout the business EMFI has a framework in place which includes:

- A clear business strategy which ensures the capital requirements of EMFI are well known by senior management. This is reviewed annually to ensure consistency with the Firm's strategy and developments within EMFI and its major business lines
- Annual projected budgets
- Minimum monthly k-factor and fixed overhead requirement calculations (which will be updated in the event of material change in the firm's business model) and perform the 25% Revenue stress test.
- A regulatory framework to capture the firm's regulatory resource requirements under the CRR intraday.

As part of a prudent capital management policy, EMFI has no plans to pay a dividend in the next 3 financial years. Any change in this policy would require Board approval.

The firm has two Executive Directors, one of which is the Chief Executive of the Firm.



Diversity and Inclusion

EMFI recognises that effective governance is strengthened by fostering diversity and inclusion at all levels of the organisation, including senior management and Board positions. EMFI aims to cultivate an inclusive environment where diverse perspectives, skills, and experiences are valued, promoting robust decision-making processes and mitigating the risks associated with groupthink. The firm actively considers diversity as part of its approach to recruiting and retaining staff, and periodically reviews the composition of its Board and senior management to ensure diversity objectives align with regulatory expectations and best practice standards.

EMFI operates on a consolidated basis, conducting quarterly board meetings guided by clearly defined terms of reference. The board across both entities comprises the Chief Executive, the Money Laundering Reporting Officer (MLRO), and an external advisor, ensuring effective oversight and balanced governance.

Own Funds and Own Funds Requirements

EMFI is required to at all times to maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirements is the higher of the Firms:

- **Permanent minimum capital requirement ("PMR"):** The PMR is the minimum level of own funds required to operate at all times and, based on the MiFID investment services and activities that the Firm currently has permission to undertake.
- **Fixed overhead requirement ("FOR"):** The FOR is intended to calculate a minimum amount of capital that the Firm would need available to absorb losses if it has cause to wind-down or exit the market, and is equal to one quarter of the Firm's relevant expenditure.
- **K-Factor requirement ("KFR"):** The KFR is intended to calculate a minimum amount of capital that the Firm would need available for the ongoing operations of its business. The only K-factor that applies to the Firm's business is K-DTF daily trading flow.

The potential for harm associated with EMFI's business strategy, based on the Firm's own funds requirement, is low. This is due to the relatively stable and consistent growth in the revenues and asset base.

One of the strategies adopted by the Firm to manage the risk of a breach of own funds requirement is to maintain a healthy own funds surplus above the own funds requirement.



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	3,030	
2 TIER 1 CAPITAL	3,030	
3 COMMON EQUITY TIER 1 CAPITAL	3,030	
4 Fully paid up capital instruments	1,590	Page 11
5 Share premium		
6 Retained earnings	1,440	Page 11
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		
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		



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	Debtors	69		
2	Current asset investments	3,133		
3	Cash at bank and in hand	60		
4				
5				
Total Assets		3,263		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial				
1	Creditors	(233)		
2				
3				
4				
Total Liabilities		(233)		



Shareholders' Equity

1	Called up share capital	1,590
2	Profit and loss account	1,440
3		

Total Shareholders' equity 3,030

The table below illustrates the various components of EMFI's own funds requirement:

Requirement	£'000
(A) Permanent Minimum Capital Requirement ("PMR")	750
(B) Fixed Overhead Requirement ("FOR")	587
(C) K-factor requirement ("KFR")	8
K-DTF – Daily trading flow	
(D) Own Funds Requirement (Max [A; B; C])	750
(E) Additional own funds requirement	0
Own Funds threshold requirement ("OFAR")	1170

Under MIFIDPRU 7, EMFI is also required to comply with Overall Financial Adequacy Rule ("OFAR"). This is an obligation on the Firm to hold own funds and liquid assets which are adequate, both as to their amount and quality at all times, to ensure that:

- the Firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities;
- the Firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants

Should EMFI determine that the FOR is insufficient to mitigate the risk of a disorderly wind down, the Firm must maintain an 'additional own funds required for winding down', above the FOR, that is deemed necessary to mitigate the risks of a disorderly wind down. However, EMFI considers the FOR to be appropriate.

Similarly, where the Firm determines that the KFR is insufficient to mitigate the risk of harm from ongoing operations, the Firm must maintain an 'own funds required for ongoing operations', above the KFR, that is deemed sufficient to ensure the viability of the Firm throughout economic cycles. However, EMFI considers the KFR to be appropriate.



The Firm's own funds threshold requirement is the higher of:

- the Firm's PMR;
- the sum of the Firm's FOR and its additional own funds required for winding down; and
- the sum of the Firm's KFR and its additional own funds required for ongoing operations.

This is the amount of own funds that EMFI is required to maintain at any given time to comply with the OFAR.

To determine the Firm's own funds threshold requirement, EMFI identifies and measures the risk of harm and considers these risks in light of its ongoing operations and also from a wind-down planning perspective. The Firm then determines the degree to which systems and controls alone mitigate the risk of harm and the risk of a disorderly wind-down, and thereby deduce the appropriate amount of additional own funds required to cover the residual risk.

This process is documented and signed off by the Board on at least an annual basis.

Remuneration Policies and Practices

As a non-SNI MIFIDPRU investment firm, EMFI is subject to the 'basic' and 'standard' requirements of the MIFIDPRU Remuneration code. The objective of the Firm's remuneration policies and practices is to establish and maintain a culture that is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk profile of the Firm and the services that it provides to its clients.

To ensure sound and effective risk management is achieved, EMFI ensures employees are provided with a base salary sufficient for everyday needs and also considers the United Kingdom inflation rate at the time of an annual salary review. Variable remuneration is discretionary and the percentage of variable remuneration available is based on the performance of EMFI group as a whole rather than the performance of individual risk takers promoting sound and effective risk management.

All employees, including risk takers, work towards the success of the firm and therefore there are no conflicts of interest between the employees and Firm. The Firm also has a separate conflicts of interest policy and register to record and mitigate conflicts should they arise. The basic set up of remuneration for staff encourages responsible business conduct and prudent risk taking as risk takers within the firm (the traders) do not have set targets to achieve individual bonuses and therefore this eliminates excessive risk taking.

Ex-Ante:

The Firm ensures that all variable remuneration awards reflect:

- The individual's performance against quantitative and qualitative criteria.
- The performance of the business unit and overall firm.
- The risks taken to achieve those results, and the sustainability of the performance.
- Risk and compliance staff are involved in reviewing proposed awards to ensure risk-adjusted performance assessment.
- Financial performance used to calculate variable remuneration is risk-adjusted and takes into account the cost of capital and liquidity risk.



Where performance cannot be substantiated or is based on excessive risk-taking, awards may be reduced or withheld entirely. Awards are only made if they are sustainable in light of the Firm's overall financial position.

Ex-Post:

Ex-post risk adjustment refers to the modification of remuneration after it has been awarded, based on the occurrence of events or the emergence of information that was not known or fully appreciated at the time of award. This can be undertaken in two ways:

- **Malus** : The reduction of unvested deferred variable remuneration.
- **Clawback** : The return of variable remuneration that has already been paid or vested.

There are several reasons why the Firm might apply these measures, which include but are not limited to; significant downturn in firm or relevant business unit performance, misconduct or material failure in risk management by the individual or business area, serious breach of internal policies or regulatory requirements, discovery of erroneous or misleading performance data, failure of a product, service or transaction for which the individual had responsibility or sanctions being levied against the individual.

Where variable remuneration is subject to deferral, malus provisions apply throughout the deferral period and may result in a reduction or cancellation of unvested awards in response to emerging risks, misconduct, or other relevant factors. Clawback provisions may apply for up to seven years following the date of payment or vesting. This period may be extended to ten years where the firm is conducting an investigation into events that could justify the application of clawback. These mechanisms ensure that remuneration outcomes continue to reflect risk-adjusted performance and uphold accountability over the medium to long term.

The Board have oversight of the remuneration policy with the Chief Executive having overall approval of the policy. The Firm is not of sufficient size to require a Remuneration Committee.

The total amount of fixed remuneration for the 2023 year was £127,269 and variable remuneration was £30,169. The Firm has six material risk takers and all variable remuneration is discretionary and not guaranteed.

Investment Policy

In accordance with MIFIDPRU 8.7.6, a firm is only required to disclose information in relation to its investment policy if the following circumstances are applied: – Only in respect of a company whose shares are admitted to trading on a regulated market; – Only where the proportion of voting rights that the MIFIDPRU investment firm directly or indirectly holds in that company is greater than 5% of all voting rights attached to the shares issued by the company; and – Only in respect of shares in that company to which voting rights are attached. As the Firm does not meet these requirements, it is not required to disclose any information relating to its investment policy.