EMFI SECURITIES LIMITED

MIFIDPRU 8 DISCLOSURE

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 2022 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 trades OTC is a riskless principal fashion in addition since September 2022 EMFI has trade flow from clients and from its own trading desk. All trades are OTC and so the risk of a counterparty failing is not mitigated by having a clearer as in for equities on an exchange or in futures which have a CCP. The vast majority of trades are with regulated counterparties. EMFI has developed intra-day monitoring technology that monitors total cash exposure to each counterparty.

Trading activity in 2022 has not been found to incur risk above the MIFIFPRU t+6 long settlement or failed settlements greater than t+6. This brings into play CRR requirements on trading book positions.

If EMFI are in a matched principal transaction and in one leg a party fails, the Firm will have to honour the other side of the trade and the agreed settlement price. This creates uncertainty as EMFI will have to enter the market and buy (or sell) the security for onward delivery (or sell the security of onward forwarding of cash) if the price moves against EMFI then this is an expense it will have to bear.

Market risk

EMFI performs the majority of trading OTC. Risk of counterparties failing to deliver securities and EMFI being subject to buy-ins or wishing to re-enter the market to buy from another counterparty to deliver onwards to make good the matched principal trade.

The volume, size, market and credit quality of sell side and buy side participants in EMFI's Client Relationship Management tool brings confidence in EMFI's estimates of counterparty risk.

Reception & Transmission of Orders Or Executing Client Orders

Clients pass orders via email, EMFI's System (clients may leave an order but cannot execute), Bloomberg Chat, or phone. There is a risk in manually executing an incorrect order from the clients' message, and then having to re-enter the market and make good on the trade.

Trading Activity on the Firm's Own Account

The Firm is aware of restrictions on size positions for failed matched principal trades and so has assigned own funds to it. EMFI did not perform a trade for its own trading book in 2022

Trading Activity In Clients' Names

EMFI completes its activity back to back in its own name only with distinct trading legs to receive from institutions and sell on to clients and vice versa.

Concentration Risk

Concentration risk is present in the focus on emerging international fixed income. Fortunately EMFI specialise in jurisdictions in LATAM, and cover others in Africa, Middle East and South Asia. Trading volumes have held up in stressed times in addition, for example the large rise in interest rates in 2022 conducted by major central banks. Before that the covid pandemic restricted consumer activity but this had little effect on wholesale markets on which sovereign/quasi sovereign issuers depend.

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.

OWN FUNDS AND OWN FUNDS REQUIREMENTS

EMFI is required to at all times 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.

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

REQUIREMENT	£'000
(A) Permanent Minimum Capital Requirement ("PMR")	750
(B) Fixed Overhead Requirement ("FOR")	128
(C) K-factor requirement ("KFR")	9
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")	750

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; and
- 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.

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 RemCo.

The total amount of fixed remuneration for the 2022 year was £187,00 and variable remuneration was £44,000. The firm has five material risk takers and all variable reumeration 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.