

MIFIDPRU 8 DISCLOSURES

iDealing.com Limited

referencing accounts for the year ending 30 June 2023

Introduction

iDealing.com Limited ('iDealing') is regulated by the Financial Conduct Authority ('FCA') as a MIFID investment firm. The components of the FCA Handbook that govern the amount and type of capital and liquidity that MIFID investment firms must hold is MIFIDPRU. MIFIDPRU includes a requirement to publish annual disclosures related to certain areas of its business. Within MIFIDPRU, iDealing is classified as a non-SNI MIFIDPRU Investment Firm.

The areas for which iDealing is required to disclose information under the MIFIDPRU disclosure rules are:

- Risk management objectives and policies
- Governance arrangements
- Own funds
- Own funds requirements
- Remuneration policy and practices

iDealing is not required to make a disclosure in relation to Investment Policy. The disclosures below are made solely in respect of iDealing, and financial data in this disclosure corresponds to and is reconciled with iDealing's annual accounts for its financial year ending 30 June 2023. These disclosures shall be made available at www.idealing.com.

The Firm's model is execution-only, self-clearing and self-settling provided at competitively priced commission rates across a range of securities.

Risk management objectives and policies

We are required to disclose our risk management objectives and policies for those specific categories of risk that are addressed in three separate chapters of the FCA Handbook. Each of the chapters address risk by assessing a capital or liquidity requirement for a risk or risks that relate to the activities that the firm carries out, or the way that it carries them out, or the profile of its business model. An illustrative example of this would be the requirement to hold capital in proportion to the amount of Client Money that a firm holds.

Chapter 4 – Own Funds requirements

The categories of risk from this chapter that the firm treats are those risks arising from:

- holding client money
- holding client assets
- handling client orders
- dealing on our own account

The potential for harm associated with iDealing's business strategy, and related to the risks addressed in chapter 4 (Own Funds requirements)* are summarily described below :

- Trading or dealing errors

The firm employs pre-trade controls and warnings, as well as post-trade checks, monitoring, and reports. These systems and controls help to prevent or mitigate the risk and cost of a trading error quickly.

- Regulatory risks including redress and fines

iDealing regularly convenes a committee consisting of senior and experienced legal, finance and compliance professionals to review and discuss compliance issues.

Compliance-related procedures are monitored, automated, and system based to the maximum extent possible.

- Material adverse change in the value of the firm's assets

Assessed at least annually, where this potential harm is impractical or impossible to mitigate, the firm will set aside an appropriate amount of additional own funds determined by its ICARA working group. For adverse change to debtor balances from counterparties, a senior manager is tasked with monitoring, where possible, credit ratings and the credit markets in order to spot increased probabilities of counterparty default.

- Losses or payments due in connection with the firm's position in financial instruments, foreign currencies, and commodities.

The Firm's trading book positions and values are monitored by the head of market risk during the trading session and closing trading P&L is reviewed and explained on a daily basis. Where this potential harm is impractical or impossible to mitigate, the firm will set aside an appropriate amount of additional own funds determined by its ICARA working group.

- Failure of or default by an iDealing trading client or trading counterparty

iDealing's systems and controls monitor excess collateral value over position losses as well as generating reports and alerts of uncovered client/counterparty uncovered exposures.

- Errors in administering custody assets held for clients

The Firm has a number of system monitors that identify and alert to various corporate action risks including deadlines with respect to corporate actions, duplicate dividend event or duplicate PTM levy entry, undistributed dividends or corporate actions, expected payments or out-turns that have not been received, or excess receipts that may be subject to market claims in the future. Where appropriate, the firm may also set aside an appropriate amount of additional own funds, determined by its ICARA working group for this potential harm.

- Cyber theft and fraud

iDealing has a framework of policies, procedures, and system controls designed to reduce this risk, for example, policies for maximum withdrawals and rules restricting or

prohibiting third-party payments. Where appropriate, the firm may also set aside an appropriate amount of additional own funds determined by its ICARA working group.

* The reader will note that there are other harms identified by the firm that may relate to, but are not specifically addressed in Chapter 4,5 or 6 and so are not summarily described in these disclosures.

Chapter 5 – Concentration risk

This is the risks arising from the strength or extent of a firm's relationships with, or direct exposure to, a single counterparty (including a client that is a counterparty of the firm) or group of connected counterparties (including client(s) that are counterparties of the firm).

iDealing's client base is made up primarily of many small (relative to institutional) individual standard and ISA accounts. It does not and is unlikely to accrued concentration risk as a result of its business model. Nevertheless, it monitors for concentration risk of various types and reports on any concentration to the FCA on a quarterly basis.

Chapter 6 – Liquidity risk

Liquidity risk is the risk that you cannot make your payment obligations.

All of the potential harms summarised above (“see section: Chapter 4 – Own Funds requirements”) relating to risks addressed by that chapter are considered by the firm to be potentially harmful to the firm's liquidity (given that a loss to the firm will almost certainly be as a reduction in the firm's liquid assets) and so those will not be repeated here.

Additionally to those harms affecting Own Funds, the firm's liquidity could be reduce by having to make large, unexpected margin calls. Whether from a position with its clearing house or a collateralised position with a trading counterparty, iDealing must be ready to transfer more liquid assets to a counterparty as margin collateral.

The Firm received and monitors its excess margin held via daily reports from its clearing-house and trading counterparties, and Firm holds as policy a significant excess margin balances so as not to have to draw down from its operating liquidity.

iDealing's approach to risk management

The Firm's risk appetite is one of low risk with continual monitoring to ensure exposures to harm are adequately managed.

Risk Appetite Framework

Determining a risk appetite is an exercise of establishing boundaries for prudent decision making and risk taking. The Firm sets its risk strategy and appetite based on its strategy, business model and identified risks. Top-down risk appetite serves as the risk limit for the bottom-up planning from the business functions.

The Firm distinguishes its risk appetite from its risk tolerance and risk capacity. The three concepts are defined below:

a. Risk Appetite is the level of risk the Firm is prepared to accept in pursuit of its objectives.

b. Risk Tolerance is the acceptable deviation from risk appetite.

c. Risk Capacity is the maximum level of risk the Firm can assume given its capital and liquidity base, risk management and control capabilities and regulatory and legal obligations.

Risk Tolerance

The Firm's risk tolerance may be revised on a periodic basis depending on the Firm's assessment of its risk management and controls arrangements. Broadly the Firm is prepared to move up two qualitative categories of risk appetite as defined in the risk appetite qualitative statement Table 5 below.

Risk Appetite Qualitative Statement

The Firm's risk appetite is articulated and communicated through a qualitative statement setting the tone for risk management.

Zero	Very Low	Low	Medium-Low	Medium	Medium-High	High	Very High
Risk is entirely unacceptable. All practicable and affordable measures to eliminate or avoid risk must be taken.	All practicable and affordable measures to minimise the risk must be taken. A strong preference for arrangements with minimal risk exposure	Preferring risk mitigation to the rewards of taking risk. Safe approaches should be taken but the cost of implementing controls should be evaluated to ensure they achieve a worthwhile level of risk mitigations.	Can accept slightly less than an average degree of uncertainty and risk in order to achieve an intended outcome providing an extra steps are taken to mitigate any potential loss or failure	Can accept an average degree of uncertainty and risk in order to achieve an intended outcome providing that reasonable steps are taken to mitigate any loss or failure.	Can accept slightly higher than average degree of uncertainty and risk in order to achieve an intended outcome providing some steps are taken to mitigate any potential loss or failure.	Willing for risks to be taken even if there is high uncertainty in order to gain highly valued reward(s). Focus is on achieving reward(s).	Willing to accept all risks even if there is a very high likelihood that the risk will crystallise. Focus is on achieving reward(s) at any cost.

Statement of Risk Appetite

The Firm's risk appetite is an articulation of the risk the Firm is prepared to accept in pursuit of its profitable strategy, duly set and monitored by the Governing Body and integrated into its operations and business model which are managed day-to-day by the senior managers.

The risk appetite is **low risk**.

Risk Identification

Risk identification is an exercise of applying known and plausible risk scenarios and stress-tests using historical data and real-world experience of informed and skilled assessors and mapping the likelihood and impact of the risk crystallising in absolute terms (i.e. unmitigated) and in net terms (i.e. after mitigation, using objectively reasonable and prudent methods).

The firm's risk management appetite is, by policy, a low-risk appetite. This is manifest in its risk-management policies with respect to

- its own-account trading limits and universe of own-account-tradeable financial instruments
- Margin leverage extended to clients
- Margin call processes
- Cash and security withdrawals

Risk-related committees

iDealing's risk-related committees function to discuss day-to-day operational and business development matters, day-to-day compliance and anti-money laundering and counter terrorist financing along with high-level and detailed horizon scanning and implementation plans, and progress vis-à-vis compliance related matters that will have an impact across the Firm.

Governance arrangements

Overview

The firm's governing body has overall responsibility for its business, including overseeing the implementation of the Firm's strategy. It oversees the operation of the firm's business by senior management, as well as its adherence to risk appetite, compliance with policies, and the maintenance of its accounting, control, financial and regulatory reporting systems. It establishes its committees and integrates committee work and assessments into its oversight and decision-making.

Disclosable directorships

The directorships held by members of the management body which are required to be reported under MIFID 8 are:

- Mathew Edmett, 1
- Graham Chase, 1

Diversity

iDealing continues to meet its objectives of providing a safe workplace, free of discrimination and any form of harassment, as well as a culture that values differences and recognises that people from different backgrounds and experiences can bring new and valuable perspectives to the workplace.

Risk committees

The firm does not have a risk committee. MiFID requirement to have a risk committee does not apply to the Firm because, whilst it is a non-SNI firm, it does not reach the relevant quantitative threshold conditions to have one.

Own funds

The firm discloses information required under MIFIDPRU 8 regarding its regulatory own funds below in 2 required-template tables:

Table 1-

Composition of regulatory own funds		Source based on reference numbers/letters of the balance sheet in the audited financial statements
Item	Amount (GBP thousands)	
1 OWN FUNDS	6,270	
2 TIER 1 CAPITAL	6,270	
3 COMMON EQUITY TIER 1 CAPITAL	6,270	
4 Fully paid up capital instruments	1,608	Note 18
5 Share premium		
6 Retained earnings	4,662	
7 Accumulated other comprehensive income		
8 Other reserves		
9 Adjustments to CET1 due to prudential filters		
10 Other funds		
(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19 CET1: Other capital elements, deductions and adjustments		
20 ADDITIONAL TIER 1 CAPITAL		
21 Fully paid up, directly issued capital instruments		
22 Share premium		
(-) 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		

Table 2 -

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements			
	Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross- reference to template OF1
	As at period end 30Jun2023	As at period end 30Jun2023	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
1 Tangible assets			
2 Investments	548	n/a	
3 Debtors	3,836	n/a	
4 Investments	1,048	n/a	
5 Cash at bank and in hand	2,200	n/a	
Total Assets	7,632		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
1 Creditors: amounts falling due within one year	1,362	n/a	
Total Liabilities	1,362		
Shareholders' Equity			
1 Called up share capital	1,608	n/a	4
2 Profit and loss reserves	4,662	n/a	6
Total Shareholders' equity	6,270		

Own funds: main features of own instruments issued by the firm

Privately placed ordinary share capital

Own funds requirements

iDealing ensures that it continues to maintain compliance with the overall financial adequacy rule through regular monitoring of

- its own funds held by the firm compared with the own funds threshold requirement calculated according to MIFIDPRU, as well as
- the liquid assets held by the firm compared with the liquid assets thresholds calculated according to MIFIDPRU.

The comparison calculations are reviewed and reported quarterly to the FCA, firm's relevant committees and ICARA working group.

Ongoing compliance and assessment of the overall financial adequacy rule is the purpose of the firm's ICARA process, lead by its ICARA working group. The ICARA process is described in the MIFIDPRU section of the FCA handbook,

The firm discloses information required under MIFIDPRU 8 regarding its compliance with the Own funds requirement as reported as at 30 June 2023:

The K-factor, requirement (in thousands, GBP):

the sum of K-AUM, K-CMH, and K-ASA requirements

476

the sum of K-COH and K-DTF requirements	1
the sum of K-NPR, K-CMG, K-TCD, and K-CON requirements	119
Total K-factor requirement	596
The fixed overheads requirements	415

Remuneration policy and practices

The firm's remuneration policy sets out the principles governing the remuneration of all staff including those identified as Code Staff in accordance with applicable requirements of the FCA's Remuneration Code.

Pursuant to SYSC 19G.1.1(2), the Firm is an out-of-scope non-SNI MIFIDPRU investment firm and pursuant to SYSC 19G 5.9 individual risk takers are out-of-scope for the purposes of provisions relating to remuneration comprising of and arrangements for:

- shares
- retention policies
- deferral
- discretionary pension benefits

For the purposes of SYSC 19G.3.5, the Firm has commissioned its external compliance consultant to review the Firm's compliance with the FCA's Remuneration Code.

The Firm, and its senior management, are unequivocally committed to do their part to:

- ensure remuneration is aligned with sound and effective risk management
- avoid incentives that encourage excessive risk-taking
- align individual rewards with long-term firm performance
- comply with FCA regulations, particularly the Remuneration Code
- prevent conflicts of interest and promote a risk-aware culture

Objectives

The primary objective of any variable remuneration is the reduction of risk.

Decision-making procedures and governance

Pursuant to SYSC 19G.7.1, the Firm is not required to have a remuneration committee.

Directors and senior managers are responsible for establishing and maintaining the culture and values promulgated throughout the Firm towards ensuring that remuneration and assessment of staff performance does not conflict with the Firm's duty to act in the best interests of its clients.

The Firm reviews and documents the list of Code Staff annually. Currently, the Firm's only Code Staff fall into the categories of:

- senior managers
- risk takers (purely on account of having a material impact on the Firm's risk profile pursuant to SYSC 19G.5.3R)
- control functions

Key characteristics

The firm's remuneration is mainly fixed, but currently consists of the following components:

- fixed remuneration by way of salary
- variable remuneration (if any) by way discretionary bonuses, and other performance-linked indicators and factors; and all cases not substantial

Remuneration of control functions (e.g. compliance, risk, etc.) is determined independently of the business unit they oversee. Performance measures of these roles are based on function-specific objectives, not business unit profitability.

The factors that the firm's governing body will take into account when setting and assessing Firm-wide performance and compensation policies are:

- the Firm's overall financial well-being, performance, and sustainability
- the Firm's overall strategy, objectives and long-term interests
- sound and effective risk management arrangements
- the absence of avoidable litigation, disputes or complaints, and negative regulatory outcomes
- the absence of material errors and operational failures (in particular related to prevention of financial crime and client money obligations)
- successful and timely adoption and implementation of new or changed regulatory requirements and client-focused arrangements

The factors that the firm's governing body will take into account when setting and assessing individual performance include:

- competence, experience, and responsibility
- alignment with the Firm's strategy, objectives, culture and values, and risk-appetite
- any Firm-wide factor attributable to the individual

The firm will not take into account the individual's gender or other protected categories.

While the award of any variable remuneration will invariably be modest, the Firm operates malus and clawback arrangements, whereby it nets off any variable remuneration against losses to the Firm such as dealing and/or corporate actions errors

Remuneration does not consist of guaranteed variable payments/remuneration or severance pay.

Quantitative disclosures (MIFIDPRU 8.6.8)

The total number of material risk takers identified in the year was: 4.

The following table discloses required information regarding fixed vs variable remuneration:

	Remuneration awarded in the financial year		
	<u>Fixed</u>	<u>Variable</u>	<u>Total</u>
Senior management	427	10	437
Other material risk takers	0	0	0
Other staff	109	12	121

The firm made no guaranteed variable remuneration awards, and no severance payments in the year.