MIFIDPRU 8 Disclosure

31 December 2023

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1. Introduction

1.1 Background and Disclosure

China Merchants Securities (UK) Limited ('CMS', or 'the Firm') was incorporated in 2013 in the UK (Company number 08748557) and has been regulated by the Financial Conduct Authority ("FCA") since 2014 (FRN: 610534). The Firm is located in London and currently has a team of staff consisting of 7 employees. Further information about key employees can be found in the 'Governance structure' section of this document.

Under the Investment Firms Prudential Regime (IFPR), CMS must make certain public disclosures as per Chapter 8 of the Prudential Sourcebook for MiFID Investment Firms in the FCA Handbook ("MIFIDPRU 8").

CMS is classified under MIFIDPRU as a Non-small and non-interconnected MIFIDPRU investment Firm ("Non-SNI MIFIDPRU Investment Firm"). CMS falls within the thresholds set out in MIFIDPRU 7.1.4R(1), as such CMS is required by MIFIDPRU 8 to disclose information on the following areas:

- Risk management objectives and policies;
- Governance arrangements;
- Own funds;
- Own funds requirements; and
- Remuneration policy and practises.

The purpose of these disclosures is to give stakeholders and market participants insight into the Firm's culture and data on the Firm's own funds and own funds requirements, increase transparency, market confidence and giving an insight into the financial health of businesses and how they are run.

The Firm's remuneration arrangements disclosed in section 6 of this document have been prepared according to the relevant rules applicable to CMS in part 19G of the Senior Management Arrangements, Systems and Controls legislation (SYSC19G).

1.2 Structure and Operating Model

CMS is regulated as a stand-alone entity in the UK and is not part of a UK consolidation group.

In Q3 2020, the Board of the Firm decided to change its commodity brokerage business to equity brokerage and research services. The change was driven by a strategic review of the company's products and services, carried out to align them with the group's core strategy.

The Company has no subsidiaries or branches. The Financial Conduct Authority ("FCA") has previously approved the Company to be an IFPRU 730k firm. The Company will continue to be regulated by the FCA.

1.3 Principal Activities

The Firm's principal purpose is to provide products and services related to sales, brokerage and research related activates covering the Chinese, Hong Kong and global equity and fixed income asset classes. In 2016, the FCA has approved a variation of CMS's permissions to trade financial products other than commodities. CMS is also a member of London Stock Exchange (LSE). CMS provides advisory and research services through stock markets and fixed income markets covering Mainland China, Hong Kong, Europe and worldwide market. CMS is dedicated to providing customers with a full range of services to ensure the success of their trading.

Throughout the year, the Company focused on expanding its equity brokerage business by providing sales and research services for global clients, including coverage of the Chinese, Hong Kong, and other global equity and fixed income brokerage markets. This initiative is in line with the group's overall strategic objectives.

To enable CMS to provide the contracted services to its clients, it is authorised by the FCA to undertake the following activities:

- Advising on investments (except on Pension Transfers and Pension Opt Outs)

- Advising on P2P agreements
- Arranging (bringing about) deals in investments
- Dealing in investments as agent
- Dealing in investments as principal
- Making arrangements with a view to transactions in investments

1.4 Frequency of Disclosure

The Firm completes the MIFIDPRU 8 disclosure annually on the date the Firm publishes its annual financial statements. As appropriate, the disclosures will be made more frequently if there is a major change to the Firm's business model.

All figures are as at the Firm's financial year end, 31 December 2023.

1.5 Verification of Disclosure

This document has been subject to review and approval in order to ensure compliance with the regulatory requirements contained within MIFIDPRU 8. The document is prepared by the Senior Management team. The document is reviewed and challenged by the Board prior to publication.

The disclosures are not required to be subject to independent external audit. The disclosures will only be subject to external verification to the extent that they are equivalent to those taken from the audited annual financial statements. They do not constitute financial statements and should not be relied upon in making judgements about the Firm.

2. Risk Management objectives and policies (MIFIDPRU 8.2)

This section describes the Firms risk management objectives and policies for the categories of risk addressed by the requirements of the Firm in the following areas:

- Own Funds
- Liquidity
- Concentration risk

2.1 Statement of Risk Appetite

CMS has adopted a conservative risk appetite in respect to all types of material harms that arise in the course of pursuing its business model and strategy. The Firm's low-risk appetite is reflected in its maintenance of own funds and core liquid assets well in excess of its own funds and liquid assets requirements, respectively, which is indicative of the fact that the Firm wishes to take little or no risk that it might be unable to meet its liabilities as they fall due. Risks are mitigated wherever possible and when they fall within the Firm's risk appetite.

CMS reviews its risks and corresponding controls to ensure that residual risks are adequately mitigated and monitored appropriately. CMS is committed to ensuring its business activities are conducted with a clear understanding of the risks, to maintaining a robust risk management framework, ensuring transparent disclosure, treating its clients fairly, and to meet the expectations of major stakeholders.

2.2 Risk Management

The Board of the Firm is responsible for the total process of risk management, as well as forming its own opinion on the effectiveness of the process. The Board sets the risk strategy policies. The Board decides the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Board ensures that the Firm has implemented an effective, ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed. The Firm has a comprehensive suite of insurance policies to protect it against a variety of different loss events. Several of these policies assist in mitigating the Firm's business and operational risks.

The Board will, at least annually, conduct a review of the effectiveness of the Firm's system of internal controls and should report to shareholders they have done so. The review will cover all material controls, including financial, operational and compliance controls and risk management systems.

Own Funds requirement

To calculate the Firm's own funds requirement, CMS identifies and measures the risk of harms applicable to the Firm and considers these risks with regards to its ongoing operations and from a wind-down perspective. The Firm then determines the extent to which systems and controls in place mitigate the Firm's risks and the potential for a disorderly wind-down, and thereby determines the appropriate amount of additional own funds required to cover the residual risks. This is done as part of the Internal Capital Adequacy and Risk Assessment ("ICARA") process where potential harm to clients, markets and the Firm are considered. The ICARA is an important component of the risk management process that feeds into and derives from the policies, procedures, systems and controls that play a key role to ensure that the Firm operates effectively.

Liquidity Risk

Liquidity risk is the risk that CMS does not have sufficient liquid assets to meet liabilities as they fall due. The level of liquidity is monitored regularly by forecasting the monthly cash position to ensure that cash balances remain sufficient. As part of the ICARA process, the primary liquidity risks are quantified using severe but plausible stress testing. The Firm uses the ICARA process to ensure that there is sufficient liquid resources available at all times to cover the exposures to the potential materialisation of the stressed scenarios.

Concentration Risk

CMS recognises that concentration risk could be overexposed to one particular client or counterparty and in turn materially impact its financial performance if it was to lose that relationship. This risk may arise if the Firm does not have adequate tools to monitor its exposure to counterparties to ensure that the Firm maintains a diverse client base and allocation of assets. The Board have monitoring tools in place to assess concentration exposure to particular clients or counterparties; enabling management to take appropriate action where required. CMS considers its concentration risk to be acceptable beyond its business risk appetite.

3. Governance Arrangements (MIFIDPRU 8.3)

3.1 Senior Management Team

CMS is a UK Limited Company and therefore its highest level of governance is its Board.

CMS believes that effective governance arrangements help the Firm achieve its strategic objectives while also ensuring that the risks to the Firm, its stakeholders and the wider market are identified, managed, and mitigated.

The role of the Board is to provide oversight and take responsibility for the strategic leadership of the Firm within a framework of good corporate governance and prudent and effective controls which enables risk to be assessed and managed. The Board sets the Firm's strategic aims, ensures that the necessary financial and human resources are in place for the Firm to meet its objectives and reviews management performance. The Board sets and oversees the Firm's values and standards and ensures that its obligations to its shareholders, its clients and others are understood.

The executive members of the Board have the daily management and oversight responsibility supported by other key members of the senior management team within the Firm.

The following individuals make up the Senior Management team at China Merchants Securities (UK) Limited:

1) **Lixin Zhang**
   Lixin holds the following senior management functions:
   - SMF9 Chair of the Governing Body

2) **Michael James Butler**
   Michael holds the following senior management functions:
   - SMF3 Executive Director
   - SMF16 Compliance Oversight
   - SMF17 Money Laundering Reporting Officer (MLRO)

3) **Soo Jung Park**[1]
   Soo holds the following senior management functions:
   - SMF1 Chief Executive
   - SMF3 Executive Director

The table below sets out the number of directorships (executive and non-executive) held by each member of the Senior Management team.

Name	**SMF Function/Position at CMS**	**No. of external directorships held**
Lixin Zhang	SMF9 Chair of the Governing Body	-
Michael James Butler	SMF3 Executive Director SMF 16 Compliance Oversight SMF17 Money Laundering Reporting Officer (MLRO)	-
Soo Jung Park	SMF1 Chief Executive SMF3 Executive Director	-

3.2 Approach to Diversity of the Senior Management Team

CMS's approach to diversity within Management is in line with that of the Firm's HR Manual & Policy. The Firm is committed to promoting equality and diversity as well as valuing a culture of inclusion. The Firm recognises that having diverse teams is essential to creating a well-balanced structure that encourages equality throughout the business and in turn maintains a desirable, committed, and efficient workplace.

Management has a responsibility to lead by example and adhere to the HR Manual & Policy, which helps promote the firm-wide aim of equal opportunities. As such, there is a strong emphasis on the recruitment process, taking into consideration not only experience and talent but also gender, ethnicity, age, and education as well as clear focus on talent development and career growth for diverse professionals.

The Firm is focused on developing a recruitment and selection process for jobs in a way that ensures no unlawful discrimination occurs. Furthermore, it aims to improve the internal training, development and promotion structure that enables equal opportunity for long-term career growth and development for all employees.

[1] Joined CMS on 19th October 2023 and was appointed SMF1 and SMF3 as of 11th January 2024

The Firm acknowledges that it has statutory duties in relation to equal pay and non-discrimination and is committed to complying with those duties in relation to this Policy and its general Remuneration Practices.
The Firm has established, implemented and maintains gender neutral Remuneration Practices in accordance with the requirements of the MIFIDPRU Code.

4. Own Funds (MIFIDPRU 8.4)

4.1 Composition of Regulatory Own Funds

CMS's own funds are made up of Common Equity Tier 1 (CET1) capital. As at 31 December 2023 the Firm had sufficient capital to over its capital requirements. This can be seen summarised in the table below.

Composition of regulatory own funds			
	Item	**Amount ($000's)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	**22,762**	
2	**TIER 1 CAPITAL**	**22,762**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**22,762**	
4	Fully paid up capital instruments	22,000	Page 16
5	Share premium	-	
6	Retained earnings	1,536	Page 16
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	(774)	Page 15
20	**ADDITIONAL TIER 1 CAPITAL**	**-**	
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**	-	
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	-	

The CET1 capital is wholly comprised of fully paid-up Share Capital and Retained Earnings. The deduction from CET1 capital is made up of losses from the financial year.

4.2 Reconciliation of Regulatory Own Funds to Balance Sheet in the Audited Financial Statements

The below table shows the reconciliation of regulatory own funds to balance sheet in the audited financial statements:

Reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		a	**b**	**C**
	($'000)	**Balance as per audited financial statements**	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
		31/12/23	**31/12/23**	
Assets				
Non-current assets		2,548	-	
Trade receivables		275	-	
Corporation tax receivable		-	-	
Interest receivable		72	-	
Cash at bank		15,498	-	
Intercompany receivables		86	-	
Other financial assets		5,000	-	
			-	
Total Assets		**23,479**	-	
Liabilities				
Trade and other payables		302	-	
Intercompany payable		-	-	
Lease liabilities		132	-	
Non-current lease liabilities		283		
Total Liabilities		**717**	-	
Members' other interests				
1 – Share capital		22,000	-	4
2 – Retained Earnings		762	-	6 & 19
Total		**22,762**	-	

5. Own Funds Requirements (MIFIDPRU 8.5)

The tables below summarise the Firm's own funds requirements. CMS is required to always maintain own funds that are at least equal to the Firm's own funds requirement.

5.1 Permanent Minimum Capital, K-Factor and Fixed Overhead Requirement

The below table shows the breakdown of the own funds requirement. CMS is required at all times to maintain own funds that are at least equal to the Firm's own funds requirement. The own funds requirement is the higher of the Firm's:

Requirement as at 31 December 2023	$'000
Permanent Minimum Capital Requirement (PMR)	956
Fixed Overhead Requirement (FOR)	485
K-factor Requirement (KFR)	414

5.2 Approach to Assessing the Adequacy of Own Funds

CMS is subject to MIFIDPRU 7 which requires Firms to use the Internal Capital Adequacy and Risk Assessment ("ICARA") process to identify whether they comply with the Overall Financial Adequacy Rule ("OFAR"). The ICARA process is the collective term for the internal systems and controls which a Firm must operate to identify and manage potential harms which may arise from the operation of a Firm's business, and to ensure that its business can be wound down in an orderly manner. The OFAR requires that a Firm must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality to ensure:

- 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 markets.

The adequacy of the ICARA process will be assessed at least on an annual basis, or more frequently if there is a material change in the business model/risk profile.

Additional Own Funds Requirement

The additional own funds requirement is the amount of capital identified by CMS that is necessary to mitigate risks to ensure the viability of the Firm throughout economic cycles and to ensure it can be wound down in an orderly manner. Within the ICARA, CMS identifies and measures risk of harms faced by the Firm and considers these risks with regards to its ongoing operations and wind-down. The Firm then determines the degree to which systems and controls alone mitigate risk of harm and the risk of a disorderly wind-down. CMS is currently a Non-SNI Firm and therefore this is a standalone assessment.

Ongoing Operations

As a non-SNI Firm, CMS has assessed all material harms posed to clients, the market and itself resulting from its ongoing operations, taking into consideration the existing controls in place. CMS has concluded under each risk that it does not consider that any additional capital is required to mitigate the harm arising from these risks.

Recovery Planning

Recovery planning is conducted to ensure that appropriate recovery actions have been identified that, if necessary, the Firm would take to would look to cut costs wherever possible and in turn re-establish the own funds and/or liquid assets to avoid breaching thresholds.

Wind Down

Wind-down planning has been performed in order to identify potential scenarios that could cause a need to wind down the business, and to determine the level of resources that the Firm would require to wind down in an orderly manner. As part of the wind-down plan, CMS has considered no reliance on the Group and has considered the most likely scenario to initiate a wind down would be due to the strategic operational decision by the Board. Appropriate triggers have been identified which would lead to Board consideration of activating the wind down plan, which are continually monitored. The Firm concluded that no additional capital would be required for an orderly wind down.

The wind-down plan is reviewed and challenged by the Board at least annually.

Overall Financial Adequacy Rule (OFAR)

CMS adopts a 10% buffer ('early warning indicator') over its own funds requirement in order to maintain a healthy own funds surplus above the requirement. If CMS triggers this warning, then the FCA would expect a dialogue to take place between themselves and the Firm based on the information provided in the notification to understand the reason for decline in the Firm's own funds and the Firm's plans to rectify this.

The below table shows the OFAR as at 31 December 2023, including the own funds threshold requirement:

OFAR as at 31 December 2023	**($000's) As per audited financial statements**
Own Funds	
Common Equity Tier 1	22,762
Additional Tier 1	-
Tier 2	-
Total Regulatory Capital	22,762
Own Funds Requirement	
Permanent Minimum Requirement **(A)**	956
Fixed Overhead Requirement **(B)**	485
K-factor Requirement **(C)**	414
Higher of (A), (B) or (C)	**956**
Assessment from ongoing operation	
As per Risk Assessment carried out through the ICARA **(D)**	414
Assessment from wind-down	
As per wind down planning **(E)**	485
Own Fund Threshold requirement	
Higher of (A), (D) or (E)	**956**
Early Warning Indicator (110%)	1,052
Capital Adequacy Surplus	**21,710**

6. Remuneration (MIFIPRU 8.6)

CMS has a Remuneration Policy is place which is in accordance with the relevant rules and guidance for the Firm's remuneration code as contained within the FCA's SYSC Sourcebook of the FCA's Handbook.

The Remuneration Code (the "RemCode") covers an individual's total remuneration - fixed and variable. The Firm incentivises staff through a combination of the two.

CMS's remuneration policy is designed to ensure that it complies with the RemCode and that its compensation arrangements:

1. Are consistent with and promote sound and effective risk management;
2. Do not encourage excessive risk taking;
3. Include measures to avoid conflicts of interest; and
4. Are in line with the Firm's business strategy, objectives, values and long-term interests; and
5. Are on a gender-neutral basis.

Proportionality

The FCA has sought to apply proportionality with respects to Firm's disclosures. CMS's remuneration policies and practices (collectively referred to as 'Remuneration Practices'), along with the disclosure, are appropriate and proportionate to the nature, scale and complexity of the risks inherent in the business model and the activities of the Firm.

Summary of the Firm's approach to remuneration for all staff, including the decision-making procedures and governance in adopting the remuneration code:

- CMS's Remuneration Policy has been adopted by the Firm's Executive Committee. The Executive Committee has overall responsibility for overseeing its implementation. The Executive Committee conduct, at least annually, a review of whether the implementation of its Remuneration Practices complies with the MIFIDPRU Code.
- The Firm's general approach to conflicts of interests is set out in its Conflicts of Interest Policy and Conflicts Inventory, as updated from time to time.
- The Firm acknowledges that it has statutory duties in relation to equal pay and non-discrimination and is committed to complying with those duties in relation to the Remuneration Policy and its general Remuneration Practices.
- The Firm has established, implemented and maintains gender neutral Remuneration Practices in accordance with the requirements of the MIFIDPRU Code.
- Due to the size, nature and complexity of the Firm, CMS is not required to appoint an independent remuneration committee.
- CMS's ability to pay a variable remuneration is based on the Firm's overall performance and takes into account both the capital and liquidity regulatory requirements.

Key characteristics of the remuneration policies and practices:

- The Firm ensures that the fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable.
- The Firm does not pay variable remuneration to members of the Executive Committee who do not perform any executive function in the firm.
- The Firm ensures that staff engaged in control functions are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

- The Firm ensures that Material Risk Takers ("MRTs") performance-related variable remuneration is based on a combination of the assessment of the performance of the individual, the business unit concerned and the overall results of the Firm.
- When assessing the induvial performance of all staff, the Firm takes into account both financial and non-financial criteria.
- Determination of the variable remuneration includes adjustments for all types of current and future risks and the cost of the capital and liquidity required. When considering all types of current and future risks, both financial and non-financial risks are considered.
- The Firm distinguishes between criteria for setting fixed and variable remuneration, the various components of remuneration are shown below:

    - Fixed remuneration, including salary, pension and benefits in kind.
    - Variable remuneration, which is split into two types: standard and non-standard.
        - Standard includes annual discretionary bonuses
        - Non-standard includes guaranteed variable remuneration, retention awards, severance pay and buy-outs.

6.1 MRT Remuneration

Based on its size and an assessment of the criteria in SYSC 19G.1.1 of the MIFIDPRU Remuneration Code, the Firm is not subject to certain rules relating to the pay-out of MRT variable remuneration. CMS is therefore subject to the "basic" MIFIDPRU Remuneration Code requirements in respect of all MIFIDPRU staff and the "standard", but not the "extended", requirements in respect of its MIFIDPRU MRTs.

The Firm has identified 3 members of the Senior Management team as 'Material Risk Takers' based on the provisions laid out under SYSC 19G.5.1R.

The Firm ensures that MRT performance-related variable remuneration is based on a combination of the assessment of the performance of the individual, business units concerned and the overall performance of Firm.

Guaranteed Variable Remuneration

The Firm does not award, pay or provide guaranteed variable remuneration (a sign-on bonus, "golden handshake" or lost opportunity award) to an MRT unless:

- it occurs in the context of hiring a new MRT,
- it is limited to the first year of service; and
- the Firm has a strong capital base.

Severance Pay

Severance pay, other than for contractually mandated notice periods, is only be made at the Firm's absolute discretion.

Any payments related to early termination of an MRT employment contract reflects performance achieved over time and is designed in a way which does not reward failure or misconduct. MRT termination payments are subject to the approval of the Executive Committee.

Clawback and Malus

CMS applies clawback (recovery) provisions to MRT variable remuneration in accordance with the minimum MIFIDPRU Remuneration Code requirements.

Clawback applies to MRT variable remuneration in the following circumstances:

- where the MRT participated in or was responsible for conduct which resulted in significant losses to the firm;
- where the MRT failed to meet appropriate standards of fitness and propriety; and/or
- in cases of fraud or other conduct with intent or severe negligence by the MRT which lead to significant losses to the Firm.

The Firm applies a three-year clawback period from the payment of MRT variable remuneration.

Total variable remuneration is generally considerably contracted, including through malus or clawback arrangements, where the financial performance of the Firm is subdued or negative.

CMS has determined not to apply malus to MRT deferred variable remuneration.

Aggregate quantitative information on remuneration:

With respect to the financial year ended 31 December 2023, the total amount of remuneration awarded to all staff interpreted under SYSC 19G.1.24G was as follows:

31-Dec-23	Senior Management	Other MRTs	All other Staff
	£,000	£,000	£,000
Total number of persons	3	1	5
Fixed remuneration	214	204	372
Variable remuneration	35	25	71
Severance awards	-	-	-
Highest single award	-	-	-
Total Remuneration	249	229	443