ZKB Securities (UK) Ltd

MIFIDPRU 8: PRUDENTIAL DISCLOSURES

1. Introduction

1.1 Background

ZKB Securities (UK) Ltd ("ZKBUK" or "the Company") is incorporated in England and is authorised and regulated by the FCA as an investment Company.

At the time of the Internal Capital Adequacy and Risk Assessment Process ("ICARA") dated 31st December 2022, according to the FCA's "Prudential sourcebook for MiFID Investment Firms" ("MIFIDPRU"), ZKB UK was a non-SNI[1] MIFIDPRU £750k limited activity investment firm.

This documents sets out the disclosure for the Company in accordance with MIFIDPRU 8.

1.2 Scope of Application

The Company is a Solo regulated entity with a Non-EEA parent. This disclosure has been prepared on that basis in accordance with MIFIDPRU 8.1.7

1.3 Disclosure Policy

The disclosures are made as at 31st December 2022 based upon the firm's ICARA approved by the Board on 17th May 2023 and in line with the latest published financial statements.

These prudential disclosures are published annually, via the Company's external website (http://www.zkb.co.uk). The frequency of disclosure will be assessed, should there be a material change in either the nature or scale of the entity.

2. Governance

2.1 Introduction

The ICARA is "owned" by the ZKBUK Board and is the result of ongoing collaboration across a number of key personnel at ZKBUK, including its Board members, and Zürcher Kantonalbank, ZKBUK's parent company. As a key component of the ICARA, dedicated ZKBUK Board specific workshops will be arranged with these key personnel (the "ICARA Working Group"). These workshops provide the ICARA Working Group with the opportunity to understand the strategy of the Company, to identify and assess harms to clients and market, risks affecting the Company's capital and liquid resources and challenge the viability and sustainability of its business model and strategy.

2.2 Risk Management

The Directors are responsible for determining the level of risk that it considers acceptable for the Company to operate at (i.e. the Company's risk appetite). The Directors have a conservative approach to risk. This is noted particularly with reference to the FCA's 'Dear CEO' letter to Wholesale Brokers of early January 2023. The firm has Financial Resilience, robust Governance and Culture and Control Functions in place and in the context of a firm that does not hold client monies and does not hold any proprietary positions.

Risks are mitigated through the application of limits and controls and a monitoring process at an operational level. On a day-to-day basis, the Directors have allocated the responsibility to monitor the Company's risk appetite to either the Compliance Officer or CEO as applicable.

[1] An SNI firm is a Small non-Interconnected firm. A non-SNI MIFIDPRU investment firm is an investment firm that exceeds one of the pre-defined thresholds for SNI MIFIDPRU investment firms.

2.3 Governance Framework

As a consequence of the above the Board is able to devote a significant amount of time to the understanding and development of a fully effective risk management function and ensuring that ICARA is fully embedded within the decision-making process of the Board.

On at least an annual basis ZKB UK meets to review the assessment and consider whether the level of risk that ZKBUK is operating at (i.e. the Company's risk appetite) is acceptable.

2.4 Governing Body

ZKBUK is governed by its Board, which consists of one executive director and three non-executive directors, as follows:

- Stuart McCandlish (Non-Executive Director and Chief Executive Officer)
- Felix Oegerli (Non-Executive Director and Chairman)
- Samuel Stadelmann (Non-Executive Director)
- Tammy Lathwell (independent, Non-Executive Director)

The Board also has two committees: an Audit and Risk Committee and a Remuneration Committee.

These individuals have been selected to ensure that the Board has wide experience in the financial industry and an appropriate combination of capabilities and competencies.

2.5 Diversity

ZKB Securities (UK) Ltd. is committed to promoting equal opportunities in employment. Any employee and any job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation (Protected Characteristics).

Diversity and checks and balances are promoted by including a mixture of Zürcher Kantonalbank group appointees, an independent Director and the Company's Chief Executive Officer.

3. Risk Management

3.1 Risk Management Framework

Risk management is used to identify and quantify risks faced by the Company, mitigate and manage such risks within the context of the overall risk appetite, and to provide ongoing monitoring of such risks for escalation as needed throughout the year. This is achieved through the strong governance framework, independent reporting, and robust systems and controls, which are regularly reviewed by senior management and independent third parties.

The Company adopts a three lines of defence model which is integral to the operation of the business on a day- to-day basis:

1. Under the first line of defence, operational management have ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.
2. The second line of defence involves checks by the compliance department to monitor and facilitate the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.
3. Internal audit from Zurcher Kantonalbank, as the third line of defence, provides assurance that the two other lines of defence are functioning effectively and ensures its assurance activities encompass the management of risk within the Company. The internal audit function is a group function provided by Zurcher Kantonalbank.

3.2 Risk Governance

The Directors determine the risks it faces and policies and procedures to manage and mitigate those risks where they exceed acceptable levels.

On an annual basis, the Directors will review and approve the top operational risks that they consider have an important business impact and will set the overall risk appetite. Risk appetite represents the amount of risk that the Company is prepared to assume.

Where the risk levels are being reached, details will be escalated to the Directors with appropriate analysis. Below these levels the Directors will require the CEO and Compliance Officer to track and, as appropriate, investigate items below these trigger points and assess the need for additional controls to mitigate control weaknesses.

3.3 Risk Appetite

In considering the risk appetite levels it is necessary to take into consideration the following factors:

- Is the risk inherent to the business (e.g. the impact of reduced revenues)?
- Is the risk in our control or does the business accept that as part of operating in this market certain outcomes may be unfavourable?
- Is there a necessary trade-off between risk mitigation costs and business returns (e.g. vendor versus in-house, managing people risk)?
- How material is the residual risk exposure in the context of the Company's financial resources and capitalisation (e.g. tail risks versus capital buffers)?

Risk appetite is communicated from the Directors to business areas and teams at four levels: Very Low, Low, Medium and High.

3.4 Approach to Risk

The Company as a regulated financial institution follows the principles of the UK Regulator's requirements. This approach requires the Board to assess risk in terms of the financial impact to the business and to ensure it has sufficient capital to withstand all but the most significant shocks should such risks materialise individually or in combination. The following disclosure is framed in this context.

4. Capital Adequacy – Own Funds

The table below shows the Capital Resources (OwnFunds) of the firm, with the regulatory template for this set out in Appendix 1:

	£'000	£'000
Own Funds		
Tier 1 Capital		
Ordinary Share Capital	15,000	
Retained Earnings	-3,989	
Deductions	0	
CET1 Capital		**11,011**
Additional Tier1 Capital		0
Total Tier1 Capital		11,011
Tier 2 Capital		**0**
Total Capital		**11,011**

Appendix 2 contains the Balance Sheet reconciliation.

5. Own Funds Requirements

The Company's own funds requirement is calculated in accordance with MIFIDPRU 4.3, which states that the Company's own funds requirement is the highest of:

- its permanent minimum capital requirement under MIFIDPRU 4.4;
- its fixed overheads requirement under MIFIDPRU 4.5;
- its K-factor requirement under MIFIDPRU 4.6

A summary of these requirements is shown within the table below:

Capital Requirements	**Regulatory Minimum Standards**	
	£'000	
1. Permanent Minimum Requirement		750
2. Fixed Overhead Requirement		837
3. K-Factors		
Risk to Clients	*K-AUM*	0
	K-CMH	0
	K-ASA	0
	K-COH	0
Risk to Market	*K-DTF*	7,668
	K-NPR	0
	K-CMG	0
	K-TCD	0
	K-CON	0
Total K-Factors		7,668
Own Funds Requirement		**7.668**

5.1 Assessing the adequacy of own funds

The Company assesses the adequacy of its own funds in accordance with the prescribed permanent minimum capital, fixed overheads and applicable K-factor requirements.

In addition, the Company undertakes an assessment of own funds requirements through its internal processes to identify additional own funds requirements of the Company as a result of:

(i) the material risks associated with the normal ongoing business operations over a 5-year period;
(ii) the costs and risk associated with an economic downturn over the same period; and
(iii) those required to facilitate an orderly wind-down of the business.

The ICARA is "owned" by the ZKBUK Board and is the result of ongoing collaboration across a number of key personnel at ZKBUK, including its Board members, and Zürcher Kantonalbank, ZKBUK's parent company. As a key component of the ICARA dedicated ZKBUK Board specific workshops will be arranged with these key personnel (the "ICARA Working Group"). These workshops provide the ICARA Working Group with the opportunity to understand the strategy of the Company, to identify and assess harms to clients and market, risks affecting the Company's capital and liquid resources and challenge the viability and sustainability of its business model and strategy.

As a consequence the Board is able to devote a significant amount of time to the understanding and development of a fully effective risk management function and ensuring that ICARA is fully embedded within the decision-making process of the Board.

The Company has assessed its additional own funds requirements and has concluded that it has sufficient own funds to meet its requirements over the five-year period.

6. Remuneration

6.1 Approach to Remuneration

The business requirements on remuneration are related to Group strategy and are designed to motivate employees and, in particular, senior management to promote the long-term success of the Group and the Company and their stability. They will include the necessary flexibility to be adapted if the business situation changes and to allow for organisational changes.

The CEO and the Chairman of the Board of Directors have joint responsibility for approving Guaranteed Variable Remuneration, retention awards and Severance Payments.

6.2 Variable Remuneration

The purpose of the Bonus Scheme (Variable Remuneration) is to incentivise eligible employees towards exceptional performance. The decision as to whether to pay any particular employee a bonus under the Bonus Scheme and, if so, the amount of any such bonus to be paid, is at the absolute discretion of the Company, but taking into account the performance of the individual and the relevant business unit and the overall results of both the Company and the Group. In assessing individual performance, the Company will take into account both financial and non-financial criteria. Payment of a bonus to an employee in one year does not mean that any other employees will necessarily be awarded a bonus in the same year and it does not mean that the employee will necessarily be given a bonus for future years.

The Remuneration Committee are responsible for ensuring that the measurement of performance used to calculate any components of Variable Remuneration:

(a) includes a comprehensive adjustment mechanism to integrate all relevant types of current and future risks;
(b) is based upon a combination of the assessment of the performance of the individual, the business unit the employee is in and the Company;
(c) considers non-financial criteria as a significant part of the performance assessment process including an assessment on the employees conduct as a substantial determinant, and consideration of the individual's adherence to risk management and compliance regimes;
(d) takes into account the cost and quantity of the capital and the liquidity required for the Company; and
(e) reflects the consistency of timing and likelihood of the Company receiving potential future revenues incorporated into current earnings.

Based on this determination, the timing, form, structure and mechanism of any Variable Remuneration payments is at the absolute discretion of the Company. The Company considers that meeting the requirements of this section will ensure that the total Variable Remuneration that may be paid to its staff will not limit its ability to strengthen its capital base. Non-Executive Directors will not be eligible for variable Remuneration at any stage.

6.3 Material Risk Takers

The Company undertook a review of the functions of all staff members taking into account whether their professional activities have a material impact on the risk profile of the Company. This assessment focused on senior management, individuals in control functions, other risk-takers and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers. The following is a list of Material Risk Takers:

Name	Title with main responsibility	Reason for Identify the staff as Material Risk taker
Stuart McCandlish	Chief Executive Officer	Member of the Management Body
Mark O'Brien	Chief Operating Officer	Senior Manager of the business
Felix Oegerli, Samuel Stadelmann and Tammy Lathwell	Non-executive directors of the Company	Members of the Management Body
Andrew Hicks	the Compliance Officer	Senior Manager of the business

6.4 Malus and Clawback

The Company in accordance will operate in-year malus and clawback in relation to variable remuneration paid within a performance year, if any, for material risk takers. Such a clawback may be applied when there is reasonable evidence of an employee's misbehaviour, the business unit suffers a material downturn in its financial performance or a material failure of risk management, such as fraud or negligence.

6.5 Guaranteed Variable Remuneration

The Company will not award, pay or provide any Guaranteed Variable Remuneration unless:

(a) it is exceptional;
(b) it occurs in the context of hiring new staff;
(c) the firm has a sound and strong capital base;
(d) is subject to malus and clawback and
(e) it is limited to the first year of service.

The Company may consider making buy-out awards in the context of recruitment of new staff in exceptional circumstances.

6.6 Severance Payments

Severance Payments (if made) will reflect performance achieved over time and will be designed in a way that does not reward failure or misconduct.

6.7 Information for composition of Fixed and Variable Remuneration by Categories

Categories	Fixed Remuneration	Variable Remuneration	Total Remuneration
	£'000	£'000	£'000
Senior Management	1,068	415	1,483
Other Material Risk Taker	0	0	0
Other Staff	433	135	568
Total £'000	1,501	550	2,051

No guaranteed variable remuneration or Severance Payments were made during the year.

7. Appendices

7.1 Own Funds Template

Composition of regulatory own funds			
Item		Amount	Source based on reference numbers/letters of the balance sheet in the audited financial statements
		£'000	
1	**OWN FUNDS**	11,011	
2	**TIER 1 CAPITAL**	11,011	
3	**COMMON EQUITY TIER 1 CAPITAL**	11,011	
4	Fully paid up capital instruments	15,000	Notes 15 and 16
5	Share premium		
6	Retained earnings	-3,989	Note 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		
12	CET1: Other capital elements, deductions and adjustments		
13	**ADDITIONAL TIER 1 CAPITAL**		
14	Fully paid up, directly issued capital instruments		
15	Share premium		
16	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
17	Additional Tier 1: Other capital elements, deductions and adjustments		
18	**TIER 2 CAPITAL**		
19	Fully paid up, directly issued capital instruments		
20	Share premium		
21	(-) TOTAL DEDUCTIONS FROM TIER 2		
22	Tier 2: Other capital elements, deductions and adjustments		

7.2 Balance Sheet Reconciliation

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial as at 31st December 2022			
	Balance Sheet as shown in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross- reference to template OF1**
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
	£'000	**£'000**	**£'000**
1 Tangible Fixed Assets	144		
2 Trade Debtors	218		
3 Amounts owed by group undertakings	315		
4 Other Debtors	85		
5 Prepayments and Accrued Income	305		
6 Cash at Bank	10,764		
Total Assets	**11,831**		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
1 Bank Overdrafts	5		
2 Trade Creditors	13		
3 Other Creditors	2		
4 Accruals and deferred income	800		
Total Liabilities	**820**		
Shareholders' Equity			
1 Allotted, called up and fully paid Ordinary Shares of £1 each	15,000		15,000
2 Retained Earnings	-3,989		-3,989
Total Shareholders' equity	**11,011**		

7.3 Total remuneration for Code staff in 2021

Remuneration 2021	**£'000**
Fixed compensation	317.1
Variable compensation	150.0
Total	**£467.1**