# SMBC Nikko Capital Markets Limited

# MIFIDPRU disclosure report

# 31 March 2022

# Contents

**Document disclaimer**

- SMBC Nikko Capital Markets Limited ("CM Ltd" "the Company") is authorised and regulated by the Financial Conduct Authority ("FCA"). The disclosures set out in this document have been provided in accordance with the disclosure requirements set out in Chapter 8 of the FCA's MIFIDPRU Prudential Sourcebook for MiFID Investment Firms ("MIFIDPRU 8") under the UK Investment Firms Prudential Regime (IFPR). The IFPR is a single prudential regime for all solo-regulated investment firms in the UK (FCA investment firms) authorised under the UK Markets in Financial Instruments Directive (MiFID), which came into effect on 1 January 2022.
- The purpose of the disclosure, as contained within this document, is to provide sufficient information to enable market participants to assess the risks within the Company
- This document does not constitute any form of financial statement on behalf of CM Ltd.
- This document reflects, where appropriate, information which is contained within the Consolidated Annual Report & Financial Statements of CM Ltd.
- The information contained herein has been subject to internal review but has not been audited by CM Ltd.'s external auditors.
- Although the disclosures are designed to provide transparent capital disclosure by banks and investment firms on a common basis, the information contained in this particular document may not be directly comparable with that made available by other firms. This may be due to a number of factors such as:
    - The mix of approaches allowed under the IFPR;
    - The mix of exposure types;
    - The different risk appetites and risk profiles of firms; and/or
    - The different waivers and modifications granted by the FCA.

# 1. Overview

## 1.1 Background and scope

The IFPR is the latest regulatory framework for the UK market governing the management of risks and capital requirements for investment firms that are authorised and regulated under the MiFID. The prudential regime for FCA investment firms is more aligned to the way that investment firms run their business. This should reduce barriers to entry and allow for increased competitiveness between investment firms in the UK.

The objective of IFPR is to be simpler and more proportionate to a firm's operations. By enabling investment firms to reduce complexity of the Capital Requirements Regulation ("CRR2") rules the main changes are lower capital requirements, less onerous governance standards and reporting obligations. IFPR disclosure requirements aim to complement the own funds requirements and the Internal Capital Adequacy and Risk Assessment ("ICARA").

The disclosures herein have been prepared in accordance with the disclosure requirements of MIFIDPRU 8. These requirements are designed to promote market discipline by providing market participants with key information on CM Ltd.'s risk management objectives, governance arrangements, own funds and own funds requirements. Improved public disclosures of such information leads to increased transparency and should lead directly to more effective market discipline.

In addition, for the Disclosure Document as of 31 March 2022, the Company is subject to the transitional provisions under MIFIDPRU TP12. Under MIFIDPRU TP12.6 R, the Company is not required to disclose the following information:

- MIFIDPRU8.2 Risk Management Objectives and Policies

- MIFIDPRU 8.7 Investment Policy

Transitional provisions also apply to the remuneration disclosures as of 31 March 2022. Under MIFIDPRU TP12.8, the Company is not required to disclose the information about its remuneration policies and practices that would ordinarily be required by MIFIDPRU8.6. Instead, the Company must continue to publish the remuneration information under Article 450 of the UK CRR.

## 1.2 Basis of Disclosure

The IFPR disclosure requirements apply to CM Ltd. on an individual entity basis. Unless otherwise stated all figures in this document are denominated in millions of US Dollars and are as of 31 March 2022.

## 1.3 Frequency of Disclosure

After due consideration of the size and complexity of the operations, CM Ltd. has determined that this disclosure document will be formally updated on an annual basis, to reflect the situation as at the end of each financial year. However, the Company may decide to publish some or all disclosures more frequently than annually if there are future changes in the business that are deemed to be material by CM Ltd.'s Board of Directors.

## 1.4 Location and Verification

This Disclosure Document has been reviewed and approved by CM Ltd.'s Board of Directors but has not been subject to external audit. However, where data is equivalent to that included in the Annual Report and Financial Statements, such data has been subject to external audit during the formal review and verification process of the financial statements.

This report is published on the SMBC Group's corporate website for the EMEA region ( EMEA - Corporate Disclosures (smbcgroup.com))

## 2. Governance arrangements (MIFIDPRU 8.3)

### 2.1 Corporate structure

SMBC Nikko Capital Markets Limited ("the Company" or "CM Ltd."), company number 02418137 incorporated in England and Wales, is an investment firm authorised and regulated by the FCA. Sumitomo Mitsui Banking Corporation ("SMBC") of Japan is the majority shareholder and controller.

### 2.2 Business model and strategy

CM Ltd.'s business model is to provide customer focused investment banking services including securities and derivatives products and corporate advisory services to investors and customers.

CM Ltd.'s strategy is focussed on strengthening its global product offering to meet the needs of its customers and continue to build long term sustainable growth through a strategic plan which recognises the Company's responsibility to a broad range of stakeholders including shareholders, customers, employees and society.

CM Ltd. is organised as two divisions, the Global Markets and Capital Markets & Advisory divisions. Global Markets comprises of the Derivatives, Fixed Income and Equities business lines, whereas Capital Markets & Advisory comprises the Debt Capital Markets ('DCM'), Equity Capital Markets ('ECM') and Mergers and Acquisitions advisory ('M&A') desks.

The Fixed Income and Equities desks within Global Markets undertake secondary market trading in bonds and equities, focused on customer facilitation and maximising order flow. CM Ltd.'s repo and securities lending activities are predominantly undertaken for customer facilitation purposes rather than a source of funding.

The Derivatives desk provides largely vanilla derivative hedging products to meet the needs of its customers, including those customers of affiliated entities in the SMBC Group.

The DCM and ECM teams within Capital Markets & Advisory provide expertise in underwriting of primary issuance, while the M&A advisory group provides advice and support to SMBC Group (the "Group") customers seeking new business opportunities.

### 2.3 Diversity

The SMBC Group is committed to diversity and inclusion because it recognises that diversity of people, opinions and perspectives is both good for business and strengthens our workplace culture. There are a number of initiatives across the group to support the development of diversity and inclusion for example DRIVE in EMEA and THRIVE in the USA.

Other initiatives that supports diversity and Inclusion are UNIQUE, to support SMBC Group in promoting a greater understanding of mental health challenges, neurodiversity, and visible and invisible disability, Balance (gender), Black Employees & Allies (race and ethnicity), Niji EMEA (LGBTQ+) and Collaborate (inclusion).

In Japan, the Group have launched the "With Us" female networking program along with a mentoring scheme and Welcome Back Policy aimed at helping women return to work. SMBC EMEA (including CM Ltd) has signed the HM Treasury, Women in Finance Charter, pledging to increase female representation to 30% at senior levels in the group by 2023. The President and CEO of CM Ltd is the accountable executive for the Women in Finance Charter.

The Board strongly believes in the benefits of greater diversity, including gender diversity and is committed to an aspirational target of 25% for the proportion of female members of the board by 2022. To facilitate this, the Company has adopted the following policies in recruiting senior executives:

- engaging only with executive search firms that are signatories to WiFC or have ensured equivalent standards through the Executive Search Firms' Voluntary Code of Conduct;
- liaising with the search firm to produce a brief that includes emphasis on diversity of skills and background, in addition to career experience and compatibility with the values and behaviours of existing board members, with a view to enhancing the overall effectiveness of the Board;
- encouraging the search firm to produce long lists which include female and other diverse candidates; and
- subject to the requirements for potential candidates to meet regulatory requirements for a board director of a financial services firm, considering all applications based on diversity of skills and background, without requiring previous board experience in executive and non-executive directorship roles, which female and other diverse senior executives may not have

## 2.4 Business Environment

The Company operates in a highly regulated business environment with significant requirements in respect of reporting, capital and liquidity management, product design, conduct, customer service and other business aspects from multiple regulators in the countries the Company operates. These regulations constantly change and evolve in response to years of financial instability, new business practices, economic and political developments and become increasingly stringent in order to promote good practice and stability in global financial markets.

The Company operates in an environment of unprecedented uncertainty with respect to the continuing challenges and opportunities presented post-Brexit, alongside the COVID-19 pandemic and IBOR transformation. It follows the Group-wide framework in responding to these challenges.

*Response to COVID-19 Pandemic*

In responding to the COVID-19 pandemic, the health and wellbeing of employees has been and remains top priority. The Company has made provision of a range of resources to support staff with their physical and mental wellbeing continues to support its people through the introduction of a hybrid working policy following a phased return to office in line with government guidance.

Both COVID-19 itself and the government's response to the pandemic can have significant impact on financial markets and the business environment, so the Company continues to monitor the situation closely and manage its positions and risks appropriately.

*Transition to Risk Free Rates*

A significant area of focus for the Company in the year was the transition of our customers to Risk Free Rates as part of discontinuance of Interbank Offer Rates for certain currencies. This project required the mobilisation of resources from across the SMBC Group and support from external legal counsel, which continue to provide expertise on regulatory obligations and developing market conventions, as well as the preparation of legal documentation to support transition. The Company have also liaised closely with colleagues from across SMBC Group.

As of 31 December 2021, the date of discontinuance of certain IBORs, the Company has successfully transitioned 86% of applicable LIBOR agreements in advance of the regulatory deadline.

*Ukraine conflict*

The Board has been engaged in overseeing our response to the issues arising from the conflict in Ukraine, including:

- understanding the actions being undertaken to respond to the imposition of sanctions and other restrictions on certain Russian companies and individuals;
- assessing which of our customers would be most directly and indirectly impacted by the conflict;
- assessing the impacts on our liquidity and capital positions and our wider control environment,
- SMBC Group's approach to managing the risks to ensure alignment within the Group.

While matters of policy remained reserved for the Board, at an operational level, the Board delegated to the Crisis Management Team (CMT) responsibility for implementing the Company's response to the risks arising from the conflict. Membership of the CMT includes the executive Directors, Chief Risk Officer, General Counsel, Chief Compliance Officer and Head of Human Resources.

Through the above steps, the Board believes that it has been able to appropriately understand the impact of the conflict on our stakeholders, primarily our customers, our people, our regulators and SMBC Group, and to take action in recognition of these interests. All principal risk types have been considered in connection with this matter.

## 2.5 Governance Structure

CM Ltd recognises that well-defined and transparent risk governance arrangements are imperative to ensure effective overall management and oversight of risk management.

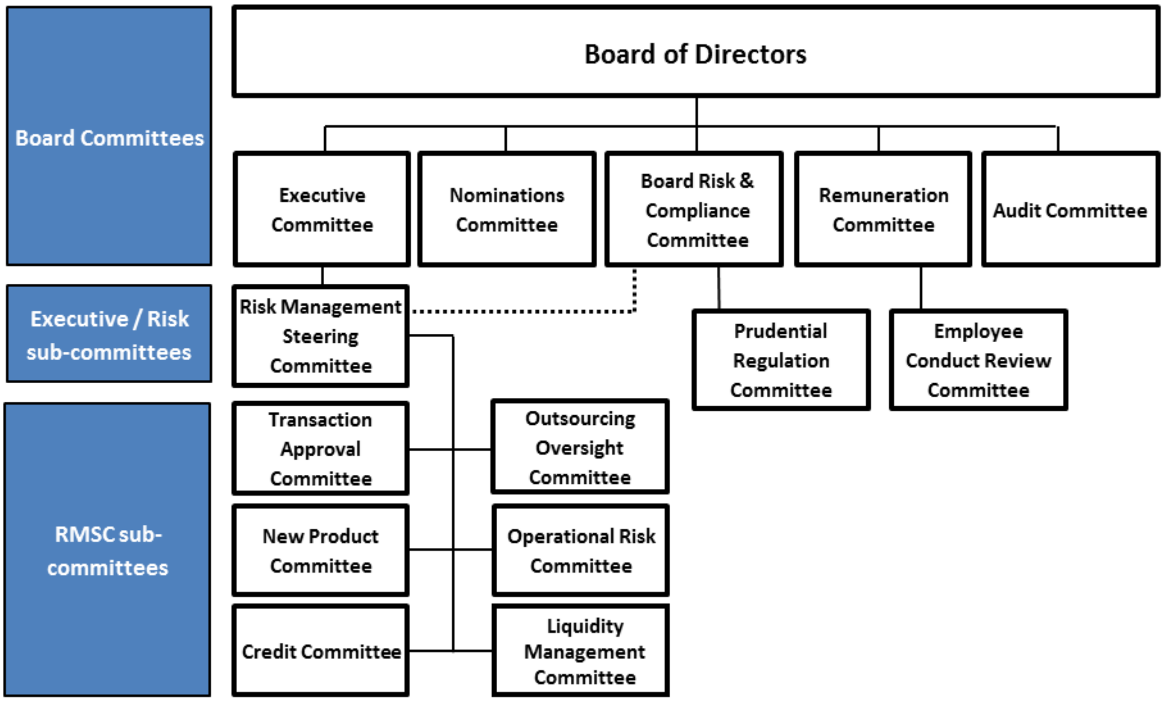
The Board retains all decision making powers, though it has delegated some of these to either committees or individuals.

CM Ltd.'s risk management governance arrangements are comprised of:

- A Committee structure to oversee and manage the risks of CM Ltd.,
- An organisational structure that utilises a "Three Lines Of Defence" model for the management of risks with clearly established responsibilities for the various Lines of Defence, and
- A policy framework that defines the mandatory minimum requirements for the management of risks across CM Ltd.

## 2.6 Risk Management Committee Structure

CM Ltd.'s committee structure is illustrated below:




### 2.6.1 The Board Risk and Compliance Committee ("BRCC")

The BRCC is responsible for assisting the Board in its oversight of risk, reviewing the Company's risk appetite and risk profile, reviewing the effectiveness of the risk management framework, reviewing the methodology used in determining the Company's capital requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, working with the Remuneration Committee to ensure that risk is properly considered in setting remuneration policy and monitoring regulatory requirements. The BRCC is supported by and oversees the work of the Prudential Regulation Committee.

The BRCC members include independent non-executive directors and meets at least quarterly.

### 2.6.2 The Nominations Committee

The Nominations Committee is constituted of non-executive directors and is responsible for the recruitment, recommendation and the annual assessment of the skills, knowledge, experience and capabilities of candidates of the Board, and to senior management positions within CM Ltd.

The Nominations Committee is responsible for selecting candidates for the Board and senior management positions within CM Ltd. The selection is based on competency-based interviews that would assess the candidates' actual knowledge, skills and abilities that the Committee consider to be relevant for the appointment. The Committee shall recommend successful candidates to the Board for the approval as part of the Company's governance process.

The Nominations Committee also has the responsibility to review on an annual basis the size and composition of the Board. Such a review will cover those areas that the Nominations Committee determines are relevant and shall include skills, knowledge, experience and diversity of the Board. The Nominations Committee shall provide the Board with outcomes of each review, including the review of the operation of its diversity policies, and where appropriate make recommendations for changes or areas for further development by the Board.

### 2.6.3 The Remuneration Committee

The Remuneration Committee consists entirely of NEDs and has oversight for the operation of remuneration policies across CM Ltd. It is also responsible for the review, approval and challenge where appropriate of remuneration proposals for members of senior management (including Executive Committee members) and other employees and Directors who are considered to have a material risk impact on us.

### 2.6.4 The Audit Committee

The Audit Committee is responsible for assisting the Board in i) its oversight and monitoring of the integrity of our financial statements and internal financial controls ii) monitoring and reviewing the effectiveness of the internal audit function. It is chaired by an independent non-executive director.

### 2.6.5 The Executive Committee

The Board delegates day-to-day management of CM Ltd. to the CEO who is further supported by a management committee framework including the following committees:

- an Executive Committee;
- a management risk committee (the Risk Management Steering Committee, "RMSC") and its sub-committees.

The Executive Committee supports the CEO in his responsibility to implement the strategic vision of the Board and to manage the daily operations of CM Ltd. The Executive Committee oversees the operation of the RMSC.

### 2.6.6 The RMSC and sub-committees

The RMSC and associated RMSC sub-committees are responsible for assisting the Board in the oversight of its i) risk governance structure; ii) risk management and risk assessment processes; iii) risk appetite and tolerance; iv) capital, liquidity and funding; v) compliance with all applicable laws and regulations; vi) systems risk management and vii) internal controls.

The RMSC sub-committees can be summarised as follows:

- Credit Committee is responsible for reviewing and monitoring credit risk exposure vs. agreed internal limits, as well as risk appetite. Other areas, e.g., analysis of problem credits or portfolio concentrations, are also considered.

- Operational Risk Committee is a specialist forum structured to look more closely at, inter alia, risk events, losses and associated trends, escalated Key Risk Indicators ("KRIs") and Key Performance Indicators ("KPIs"), overdue actions and remedial steps, as well as wider themes around Third Party Vendor Management and Information Security.

- Liquidity Management Committee focuses on issues related to liquidity risk and treasury management, e.g., liquidity stress testing, funds transfer pricing and efficiency of liquid asset buffer.

- Outsourcing Oversight Committee focuses on providing an enhanced first line oversight over outsourcing arrangements entered into between the Company and its subsidiary and provides recommendations on outsourcing.

- The Transaction Approval and New Product Committees convene to review new business which could potentially be considered to be outside of the norm, e.g., due to size, specific risk considerations (e.g., liquidity or credit) or if there are reputational considerations.

### 2.6.7 The Prudential Regulation Committee ("PRC")

The PRC is a sub-committee of the BRCC, which provides additional oversight of important processes within the firm such as the Internal Capital Adequacy and Risk Assessment ("ICARA") process and constituent parts (e.g.

capital, liquidity, recovery and solvent wind down assessments). The Committee meets to review and challenge metrics, models and results related to risk management and valuation, as well the accuracy of regulatory returns) and interpretation of relevant rules and guidelines.

### 2.6.8 Directorships

The below table shows CM Ltd.'s directors and the number of both internal and external directorships they each serve as of 31 March 2022:

| Name | Company Name/Role | Date of Appointment |
|---|---|---|
| Patricia Jackson | • Non-Executive Director, SMBC Nikko Capital Markets Limited<br>• Non Executive Director, SMBC Bank International plc<br>• Non Executive Director, Handelsbanken plc | • 13 June 2017<br>• 1 January 2022<br>• 1 October 2021 |
| Stephen Souchon | • Non Executive Director, SMBC Nikko Capital Markets Limited<br>• Trustee & Treasurer, Open Age, Registered charity no: 1160125<br>• Non-Executive Director, Aberdeen New Dawn Investment Trust PLC<br>• Non-Executive Director, TD Bank Europe Limited | • 26 January 2018<br>• 4 June 2019<br>• 1 October 2019<br>• 14 June 2021 |
| Maria Turner | • Non Executive Director, SMBC Nikko Capital Markets Limited | • 21 January 2021 |
| Antony Yates | • Executive Director, SMBC Nikko Capital Markets Limited<br>• Executive Director, SMBC Derivative Products Limited<br>• Non-Executive Director, SMBC Capital Markets Inc.<br>• Director, SMBC Capital Markets Asia Limited<br>• Supervisory Board Member, SMBC Nikko Capital Markets Europe GmbH | • 5 July 1995<br>• 5 July 1995<br>• May 2014<br>• August 2008<br>• 1 May 2020 |
| Takahiro Yazawa | • Non Executive Director, SMBC Nikko Capital Markets Limited<br>• Non Executive Director, SMBC Derivative Products Limited<br>• Supervisory Board Member ,SMBC Nikko Capital Markets Europe GmbH | • 24 October 2014<br>• 15 November 2016<br>• 1 May 2020 |
| Hideo Kawafune | • Non Executive Director, SMBC Nikko Capital Markets Limited<br>• Executive Director, SMBC Bank International Plc<br>• Supervisory Board Director, JSC Sumitomo Mitsui Rus Bank<br>• Non Executive Director, JRI Europe Limited | • 4 July 2018<br>• 3 April 2018<br>• 22 June 2018 |

| | | |
|---|---|---|
| | • Supervisory Board Director, SMBC Bank EU AG<br>• Board Member, SMBC Advisory Services Saudi Arabia (SASSA) | • 1 November 2018<br>• 4 February 2019<br>• 30 June 2019 |
| Keiichiro Nakamura | • Non Executive Director, SMBC Nikko Capital Markets Limited<br>• Executive Director, SMBC Bank International Plc<br>• Supervisory Board Chair, Shimano Europe B.V<br>• Supervisory Board Director, JSC Sumitomo Mitsui Rus Bank<br>• Supervisory Board Director, SMBC Bank EU AG<br>• Supervisory Board Member, SMBC Nikko Capital Markets Europe GmbH<br>• Board Member, The Japanese School Limited | • 1 May 2020<br>• 1 May 2020<br>• 31 July 2020<br>• 9 July 2015<br>• 1 May 2020<br>• 6 May 2020<br>• 16 July 2020 |
| Yukio Ishii | • Executive Director, SMBC Derivative Products Limited<br>• Executive Director, SMBC Nikko Capital Markets Limited | • 6 April 2022 |

The following changes to the Board occurred in the year and as at the date of this report:

- Hitoshi Minami resigned as a Director on 4 March 2022
- Yukio Ishii was appointed as a Director on 6 April 2022

## 3. Key metrics

The key metrics dashboard below provides a summary of the capital adequacy positions of CM Ltd. The figures as of 31 March 2021 were calculated under the CRR rules, while those as of 31 March 2022 were under the IFPR rules. Capital adequacy under IFPR is measured using solvency ratio (own funds/own funds requirements) whilst capital ratio (own funds/risk weighted assets) is used under CRR. To ensure comparability, the table below shows both ratios.

| | 31 March 2022 US$m | 31 March 2021 US$m |
|---|---|---|
| *Common equity tier 1 (CET1) capital* | | |
| Called up share capital | 779.0 | 779.0 |
| Share premium | 165.0 | 165.0 |
| Retained earnings | 520.9 | 518.4 |
| Other reserves | (1.5) | (1.6) |
| | **1,463.4** | **1,460.8** |
| *CET1 regulatory adjustments* | | |
| Intangible assets | (11.6) | (7.5) |
| Cash flow hedges | 1.5 | - |
| Other | (30.1) | (15.6) |
| CET1 instruments of financial sector entities where the institution has a significant investment (Note below) | - | (65.4) |
| | **(40.1)** | **(88.5)** |
| | | |
| *Total CET1 capital* | 1,423.3 | 1,372.3 |
| *Additional tier 1 (AT1) capital* | | |
| Perpetual non-cumulative preference shares | 360.0 | 360.0 |
| Other adjustments | - | - |
| | 360.0 | 360.0 |
| | | |
| ***Total Own Funds*** | **1,783.3** | **1,732.3** |
| | | |
| **Risk-weighted assets** | **2,778.8** | **4,018.4** |
| **Own Funds requirements** | **222.3** | **321.5** |
| | | |
| **CET1 capital ratio** | **51.2%** | **34.2%** |
| **Total capital ratio** | **64.2%** | **43.1%** |
| **IFPR Solvency Ratio** | **802.2%** | **538.8%** |

*Note: CM Ltd. does not need to deduct 'Significant investments in CET1 of financial sector entities' from CET1 under IFPR ( MIFIDPRU 3.3.13R) relating to subsidiaries which form part of the same investment firm group as CM Ltd.*

## 4. Own funds (MIFIDPRU 8.4)

The following tables presents CM Ltd.'s Own Funds held which is made up of common equity tier 1 capital and additional tier 1 capital.

Under MIFIDPRU, CM Ltd. is required to disclose:

1. A composition of the regulatory own funds and the applicable regulatory deductions and applicable filters – see Table 1 below

2. A reconciliation of 1 (above) with the capital in the balance sheet in the audited financial statements of CM Ltd – see Table 2 below
3. A description of the main features of own funds instruments issued by CM Ltd – see Table 3 below

| Table 1: Composition of regulatory own funds | | | |
|---|---|---|---|
| | Item | Amounts | Cross reference to Table 2 |
| 1 | **OWN FUNDS** | 1,784.3 | |
| 2 | **TIER 1 CAPITAL** | 1,784.3 | |
| 3 | **COMMON EQUITY TIER 1 CAPITAL** | 1,464.4 | |
| 4 | Fully paid-up capital instruments | 779.0 | a |
| 5 | Share premium | 165.0 | b |
| 6 | Retained earnings | 520.9 | c |
| 7 | Accumulated other comprehensive income | (1.5) | d |
| 11 | (-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1 | (40.1) | e (note below) |
| 20 | **ADDITIONAL TIER 1 CAPITAL** | 360 | |
| 21 | Fully paid up, directly issued capital instruments | 360 | a |

Note: 'e' includes deductions of intangible assets and deferred tax assets for a sum of $15.8 million (see table 2). The remaining $25.2 million of deductions include additional value adjustments (AVA) and prudential filters.

## 4.1 Common Equity Tier 1 ("CET1") Capital

The Company's Common Equity Tier 1 capital is made up of $779 million of fully paid-up ordinary share capital, $165 million share premium, audited reserves, and other reserves.

Ordinary shares carry voting rights and are owned by Sumitomo Mitsui Banking Corporation (85%) and SMBC Nikko Securities, Inc. (15%). Further details of the features of ordinary shares are in Table 3 below.

## 4.2 Additional Tier 1 Capital ("AT1")

AT1 Capital consists of $360 million of perpetual, non-cumulative preference shares, fully paid-up and compliant with the eligibility criteria under MIFIDPRU 3.4.3 R. Further details of the features of AT1 are in Table 3 below.

## 4.3 Capital deductions

Our own funds are subject to the following deductions from CET1:

- Deduction of intangible assets
- Deduction of deferred tax assets
- Prudential filters, which include:
    - Reversal of the fair value reserves related to gains or losses on cash flow hedges on projected cash flows,
    - Reversal of the gain or losses on liabilities that result from changes in the own credit standing of the firm, and
    - Application of the additional value adjustments.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS'), and regulatory own funds are prepared under prudential rules. The financial statement under the regulatory scope of consolidation forms the basis for the calculation of regulatory capital requirements. There is no difference in the regulatory and accounting scope of consolidation.

| Table 2: Own funds reconciliation of regulatory own funds to balance sheet in the audited financial statements | | | | |
|---|---|---|---|---|
| | | a | b | c |
| | | **Balance sheet as in published financial statements** | **Under regulatory scope of consolidation** | **Cross Reference to Table 1** |
| | | **31 March 2022** | | |
| **Assets - Breakdown by asset class according to the balance sheet in the published financial statements** | | | | |
| 1 | Cash at banks | 664.9 | | |
| 2 | Trading securities | 1,693.70 | | |
| 3 | Derivative assets | 8,132.30 | | |
| 4 | Other trading assets, at fair value | 1,367.30 | | |
| 5 | Securities purchased under agreements to resell | 6,227.10 | | |
| 6 | Collateral placed | 3,404.30 | | |
| 7 | Other debtors | 242.8 | | |
| 8 | Investment in subsidiary undertaking | 202 | | |
| 9 | Intangible assets | 11.5 | | e |
| 10 | Property, plant, and equipment | 6.9 | | |
| 11 | Deferred tax asset | 4.3 | | e |
| | **Total assets** | **21,957.1** | | |
| **Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements** | | | | |
| 1 | Trading securities sold, not yet purchased | 926.4 | | |
| 2 | Derivative liabilities | 8,173.6 | | |
| 3 | Other trading liabilities, at fair value | 1,006.1 | | |
| 4 | Securities sold under agreements to repurchase | 4,674.2 | | |
| 5 | Collateral received | 3,975.8 | | |
| 6 | Other creditors | 1,377.6 | | |
| 7 | Pension scheme liability | | | |
| | **Total liabilities** | **20,133.7** | | |
| **Shareholders' Equity** | | | | |
| 1 | Called up share capital | 1,139.0 | | a |
| 2 | Share premium | 165.0 | | b |
| 3 | Retained earnings | 520.9 | | c |
| 4 | Other reserves | (1.5) | | d |
| | **Total shareholders' equity** | **1,823.4** | | |

## Table 3: Main features of own funds issued by CM Ltd.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Capital Instruments' main features template** | | | | | | |
| | | **Common Equity** | | **Additional Tier 1** | | |
| 1 | Issuer | SMBC Nikko Capital Markets Limited | | | | |
| 2 | Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement) | N/A | | | | |
| 3 | Governing law (s) pf the instrument | English | | | | |
| | *Regulatory treatment* | | | | | |
| 4 | Transitional CRR rules | Common Equity Tier 1 | | Tier 1 | | |
| 5 | Post- transitional CRR rules | Common Equity Tier 1 | | Tier 1 | | |
| 6 | Eligible at solo/ (sub)- consolidated/ solo & (sub)-consolidated | Solo & consolidated | | | | |
| 7 | Instrument type (types to be specified by each jurisdiction) | Common shares | | Other 1 instruments | | |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | USD 661 million | USD 118 million | USD 200 million | USD 50 million | USD 110 million |
| 9 | Nominal amount of instrument | USD 661 million | USD 118 million | USD 200 million | USD 50 million | USD 110 million |
| 9a | Issue price | USD 1 per security | | | | |
| 9b | Redemption price | N/A | | | | |
| 10 | Accounting classification | Shareholders' equity | | | | |
| 11 | Original date of issuance | 17/06/2015 | 29/07/2015 | 28/12/2007 | 07/10/2010 | 29/07/2015 |
| 12 | Perpetual or dated | Perpetual | | | | |
| 13 | Original maturity date | N/A | | | | |
| 14 | Issuer call subject to prior supervisory approval | No | No | Yes | | |
| 15 | Optional call date, contingent call dates and redemption amount | N/A | N/A | Any time after the 5th anniversary of issue date and Any time if a Tax Event or Capital Disqualification Event occurs at a price equal to liquidation preference | Any time after the 5th anniversary of issue date and Any time if a Tax Event or Capital Disqualification Event occurs at a price equal to liquidation preference | Any time after the 5th anniversary of issue date and Any time if a Tax Event or Capital Disqualification Event occurs at a price equal to liquidation preference |
| 16 | Subsequent call dates, if applicable | N/A | N/A | As above | | |
| | *Coupons/ dividends* | | | | | |
| 17 | Fixed or floating dividend/ coupon | Floating | Floating | Fixed | Fixed | Fixed |
| 18 | Coupon rate and any related index | N/A | N/A | 5.50% | 5.50% | 5.50% |
| 19 | Existence of a dividend stopper | No | No | No | No | No |
| 20a | Fully discretionary, partially discretionary, or mandatory (in terms of timing) | Fully discretionary | | | | |
| 20b | Fully discretionary, partially discretionary, or mandatory (in terms of amount) | Fully discretionary | | | | |
| 21 | Existence of step up or other incentive to redeem | No | No | No | No | No |

| | | | | | | |
|---|---|---|---|---|---|---|
| 22 | Noncumulative or cumulative | Non-cumulative | | | | |
| 23 | Convertible or non- convertible | Non- convertible | | Convertible | | |
| 24 | If convertible, conversion trigger(s) | N/A | N/A | If Common Equity Tier 1 Capital Ratio falls below 64% | | |
| 25 | If convertible, fully or partially | N/A | N/A | Fully | | |
| 26 | If convertible, conversion rate | N/A | N/A | Ordinary shares | | |
| 27 | If convertible, mandatory, or optional conversion | N/A | N/A | Mandatory | | |
| 28 | If convertible, specify instrument type convertible into | N/A | N/A | Common Equity Tier 1 | | |
| 29 | If convertible, specify issuer of instrument it converts into | N/A | N/A | SMBC Nikko Capital Markets Limited | | |
| 30 | Write- down features | No | No | No | No | No |
| 31 | If write- down, write- down trigger(s) | No | No | N/A | N/A | N/A |
| 32 | If write- down, full, or partial | N/A | N/A | N/A | N/A | N/A |
| 33 | If write- down, permanent, or temporary | N/A | N/A | N/A | N/A | N/A |
| 34 | If temporary write- down, description of write- up mechanism | N/A | N/A | N/A | N/A | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Preference shares | | Subordinated liabilities | | |
| 36 | Non- compliant transitioned features | No | No | No | No | No |
| 37 | If yes, specify non- compliant features | N/A | N/A | N/A | N/A | N/A |

# 5. Own funds requirements (MIFIDPRU 8.5)

## 5.1 Components of the assessment

CM Ltd.'s own funds requirements are determined as the highest of the following three requirements under MIFIDPRU 4.3.2 R:

1. Permanent Minimum Capital Requirement (PMR) –£750,000 (MIFIDPRU 4.4.2R)
2. Fixed Overheads Requirement (FOR) – $34 million, one quarter of the Company's annual fixed overheads (MIFIDPRU 4.5.1.R)
3. K-factor requirements – Total K-factor requirements are $222 million, a breakdown of which is provided in Table 4 below.

CM Ltd.'s Own Funds Requirements are therefore determined by the K-factor requirements, i.e. $222 million, which is the highest of these three.

## 5.2 K-Factor requirements break down

The 'K-factor' approach is a new approach introduced by the IFPR to determine the minimum own funds requirements of an investment firm that is not an SNI. The aim of the K-factors is to provide a tailored and more appropriate method for setting a risk-based minimum own funds requirement for all types of investment firm compared to the CRR regime.

The K-factors relevant to CM Ltd.'s' business model include the following:

- K-factor requirement calculated on the basis of the Daily Trading Flow (K-DTF) – designed to capture the operational risks relating to the value of trading activity a firm conducts throughout each business day. First component is 'cash trades' which includes both outright security purchase/sales and securities financing transactions ("SFTs"). Second component are derivative trades. DTF is measured as a rolling average over the previous 9 months but excluding the 3 most recent months.
- K-factor requirement calculated on the basis of the Net Position Risk ("K-NPR") – this approach carries forward the market risk requirements under the UK CRR.
- K-factor requirement calculated on the basis of the Trading Counterparty Default risk (" K-TCD") – captures the risk of CM Ltd.'s exposure to the default of its trading counterparties. This includes derivative, long settlement transactions, SFTs and securities lending/borrowing designated as trading book..

**Table 4: Breakdown of K-factor requirements**

| **K-factor requirement: (Sum of)** | **Amount** |
|---|---|
| K-DTF | 3.7 |
| K-NPR + K-TCD | 218.6 |
| **Total K factor assessment** | **222.3** |

## 5.3 Overall financial adequacy

The Company utilises a number of approaches to ensure that it remains compliant with the overall financial adequacy rule under MIFIDPRU7.4.7R, both in terms of own funds and liquidity resources.

Foremost is the annual assessment of own funds and liquidity adequacy conducted during the internal Capital Adequacy and Risk Assessment ("ICARA") process, which considers the Company's resource requirements under 'business as usual' and a variety of severe yet plausible stressed scenario contexts. In the case of own funds, these requirements are forecast over a three-year time horizon and test a number of the key sensitivities of the Company's business lines and balance sheet. The Company then ensures that its current level of financial resources is adequate to remain a going concern during this period under all scenarios considered.

The resulting capital and liquidity requirements from this process remain relatively consistent after the transition to IFPR requirements, as the bulk of the requirement is based on internal assessment methodologies which have remained broadly consistent year on year and are significantly higher than the own funds requirements described in section 5.2 above.

The ICARA process is otherwise supported on an ongoing basis by a comprehensive Enterprise-Wide Risk Management framework, which defines the following key components:

- Risk Governance Structure – who is responsible for the Company's risk management and what authorities are given
- Risk Identification and Assessment – what risks the Company faces and how important each risk is
- Risk Appetite – what level of risk for each risk type and on an aggregate basis the Firm is prepared to take in the pursuit of strategic objectives of the Company
- Risk Measurement – how risks are individually and collectively measured and recognised
- Risk Monitoring and Reporting – how risks are monitored, controlled and reported to the Board, executive management and business owners
- Stress Testing – Scenario analysis of potential downside risks

- Capital, liquidity and funding planning and management – how the Company's capital and liquidity resources should be managed

## 6. Remuneration policy and practices (MIFIDPRU 8.6) [1]

CM Ltd. is subject to the FCA's Remuneration Code and is categorised as a proportionality level 3 firm. This section provides further information on the Company's remuneration policies and governance in addition to quantitative information on remuneration in respect of the 12 month period ending 31st March 2022 (FY21). The Company retains three Independent non-executive Directors (INEDs) on its Board who receive a fixed fee for their services

**1. Remuneration Policy**

The Remuneration Policy ("Policy") sets out the policies and practices of remuneration for all the Company's employees including international secondees from SMBC Nikko Capital Markets (Tokyo) and SMBC (Tokyo), and is intended to reflect the overall business philosophy, aims and objectives.

The FCA Remuneration Code ("the Code") applies to all the Company's employees.

The Remuneration Policy is an expression of the Company's overall philosophy, aims and objectives with regard to how employees are paid

It is the Company's intention that:

1) it complies in full with the FCA Remuneration Code (SYSC 19A), ensuring that the Remuneration Policy is risk-focussed and adopts Remuneration Policies which promote effective risk management and do not expose the business to excessive risk;

2) the Remuneration Policy will align to the business strategy and the objectives, culture and values of the Company;

3) the Remuneration Policy will support the long term aims. It will seek to encourage and support long term stability and sustainability, particularly of its capital base, and promote steady growth and keen risk awareness;

4) decisions about Remuneration Policy will be reviewed, considered and approved/ratified by the Remuneration Committee ("RemCo");

5) employees are remunerated by means of the following elements - basic salary, allowances, benefits including defined contribution pension, private medical insurance, life assurance and variable pay – that are relevant to their location and function;

6) the amount of fixed remuneration, including where appropriate; salary, allowances, or benefits, should be sufficient for an acceptable standard of living in any given location without a dependency on variable pay;

7) employees have the opportunity to share in the success of the Company in years of good performance and also accept diminished levels of variable pay in times of poor performance or losses; and

[1] Under the Transitional provisions MIFIDPRU TP12.8, the Company is not required to disclose the information about its remuneration policies and practices that would ordinarily be required by MIFIDPRU8.6. Instead, the Company must continue to publish the remuneration information under Article 450 of the UK CRR.

8) the Remuneration Policy is gender neutral, with male and female workers being paid equal pay for equal work or work of equal value. SMBC performs an annual salary review with controls in place to ensure compliance with this policy.

The policy is owned by the RemCo, who will review the policy annually or more frequently if necessary. The RemCo has the authority to make significant revisions to the policy. Minor revisions may be made by the Head of Human Resources and approved by the CEO, with ratification by the RemCo.

The mandate of the RemCo includes, but is not limited to:

- Reviewing and recommending to the Board the approval of the Remuneration Policy
- Reviewing and approving current and deferred remuneration for specified Material Risk Takers ("MRT")
- Reviewing and approving the bonus fund cap calculation, including ex-ante and ex-post risk adjustments

**2. Regulation**

The Company is committed to the maintenance of robust remuneration arrangements that are in accordance with regulatory requirements including the Code.

Here are some of the ways in which the the Company fulfils this commitment:

a) Scope and Application – have a clear process to identify employees whose professional activities could have a significant impact on the firm's risk profile, including senior risk and compliance officers, in accordance with the FCA Remuneration Code. Such employees are designated as MRT and they are made aware of the implications of their status;

b) Governance – the Company is categorised as a significant, Proportionality Level 3 firm. In line with FCA proportionality guidelines, it has constituted a RemCo to strengthen remuneration governance. The committee is primarily responsible for ensuring the remuneration policies comply with the FCA Remuneration Code in addition to specific responsibilities for the approval of senior management compensation, review of MRT compensation, bonus pool funding and employee conduct outcomes. Human Resources will seek review of the Remuneration Policy Statement and this disclosure from external consultants from time to time as deemed appropriate and necessary to confirm compliant approach to remuneration and the required disclosure. The last review of the documentation, approach and compliance was undertaken by PricewaterhouseCoopers (PwC) for the FY19 performance year.

c) Capital – the aggregate total of variable remuneration in FY 2021 was considered in the context of the Company's overall capital resources;

d) Guarantees – the policy is that guarantees are used only in exceptional circumstances, only in the case of new hires and only in their first 12 months of service;

e) Risk–focused Remuneration Policies – the policies, procedures and practices promote sound risk management. This is an important part of the policy which links risk and remuneration through the governance process, the performance evaluation process, deferral structures and performance adjustment provisions;

f) The Company has a top down risk adjustment which is produced by the Risk Management department. This uses attributed direct costs and then incorporates a cost of capital to reflect capital usage. The process is used to quantify the efficiency of capital usage in driving profitability and to assess the appropriateness of the size of the bonus funds.

g) The Company has voluntarily implemented a deferral scheme and a variable pay cap of 200% of fixed pay - See Section 6;

h) The Company also adjusts the bonus awards of its employees if their behaviours are deemed to be incompatible with the organisation's values and culture.

i) Conduct assessment is a key part in the assessment of non-financial performance for Departments.

**3. Material Risk Takers**

The Company has identified MRTs in accordance with Remuneration Code with reference to the EBA Regulatory Technical Standards (RTS) for the definition of material risk takers for remuneration purposes. The Company has developed and applied internal qualitative and quantitative assessments against the defined criteria to identify those individuals that have a material impact upon the Company's risk profile.

For the performance year 2021 there were 53 MRTs identified in CM Ltd.

**4. Control functions**

Employees engaged in risk, audit and compliance functions are independent of the business units they oversee. Their remuneration, both fixed and variable, is determined centrally, with no involvement from front line business units in the process and is reviewed and approved by the Remuneration Committee. Remuneration for employees in control functions is predominantly fixed.

**5. Base salary**

Base salary is the fixed payment made to an employee for their services. It does not include allowances or benefits and is the basis for salary-related benefits such as pension contributions.

The amount of salary paid to an employee will depend on the following factors:

a) the market rate for the function;

b) the consistency of the market rate with internal peer groups;

c) the knowledge, experience and competencies of the individual;

Base salary is reviewed annually and increases are effective from 1 July.

Fixed remuneration comprises of base salary, allowances and benefits.

**6. Variable pay**

The Company has defined variable pay as annual discretionary bonus, which is awarded based on SMBC results, CM Group results, departmental results and individual performance.

The total bonus pool amount is determined by reference to the Company's risk-adjusted criteria, which include both quantitative and qualitative measures.

Individual discretionary bonuses are based on performance and non-performance based criteria. Adherence to applicable risk and control frameworks is part of the performance assessment.

All employees are eligible to be considered for a discretionary bonus award as long as they began their employment with the Compnay on or before the last day of March of the appropriate performance year. All awards for new joiners are pro-rated based on their start date.

For FY 2021 the core performance criteria were:

Risk, Compliance and Conduct; Leadership, Customer Service, Organisation and People Development; and Diversity and Inclusion.

**7. Deferral and performance adjustment**

As a proportionality level 3 firm and in accordance with the Remuneration Code, the Company has dis-applied the requirement to make payment in shares, or equivalent non-cash instruments. The Company has voluntarily adopted a deferral policy upon which performance adjustment may be applied. MRTs are also subject to clawback provisions.

## 8. Remuneration of SMBC Nikko Capital Markets Limited in performance year 2021

Aggregate remuneration amount for MRTs:

| Total remuneration (US$m) 2020 | | |
|---|---|---|
| Senior Managers | Other members of staff designated as MRT | Total |
| 4.5 | 14.3 | 18.9 |

NB the figures above are in respect of the financial period ending 31 March 2022 - including 12 months of fixed pay to 31 March 2022, and the bonus awards paid in June 2022 for the performance year FY 2021.