

WealthKernel Limited (FRN 723719) MIFIDPRU Disclosure

For the Year Ended 31 December 2022

1. Overview

1.1. Background

The Investment Firm Prudential Regime (**IFPR**) is the new prudential regime for MIFID investment firms which aims to streamline and simplify the prudential requirements for UK investment firms. It came into effect on 1 January 2022 and its provisions apply to WealthKernel Limited as a non-small non-interconnected (**non-SNI**) MIFIDPRU investment firm.

WealthKernel Limited ("**WK**" or the "**Firm**") operates as a MIFID Investment Firm in the UK. As an FCA-authorized and regulated firm it is required to meet the FCA's capital resource requirements set in MIFIDPRU Prudential sourcebook for MIFID investment firms of the FCA Handbook, including:

- at all times hold own funds and liquid assets which are adequate, both as to their amount and to their quality, to ensure it 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
- ensure that the business can be wound down in an orderly manner, minimising harm to consumers or to other market participants, if necessary.

WK is required to publish disclosures in accordance with the provisions outlined in MIFIDPRU 8 of the IFPR. The disclosure for WK is prepared on a solo entity basis. The disclosed information is proportionate to the Firm's size, nature, scope and complexity of its business activities.

1.2. Principal Activities

WK is a private limited company providing investment management and financial services to its business clients and retail clients. It offers a range of products including GIA, ISA, JISA, SIPP as well as platform services, KYC services etc. The registered office of the Firm is in London. However, most of its business activities are completed remotely.

1.3. Company Structure

WK is a solo entity owned by ETFS Capital (Holdings) Limited (shareholding 28.33%), Thuvakaran Shanmugarajah (shareholding 20.73%), Yannick Brunner (shareholding 12.02% and other smaller

investors. WK is incorporated in the UK under the Companies Act 2006 and authorised by the Financial Conduct Authority (**FCA**).

1.4. Conflict of Interest

The firm deals with any actual and potential conflicts of interest as set out in the Firms Conflicts of Interest Policy document, which is approved by the Firms' relevant governing body.

The policy sets out how the firm seeks to prevent and deal with conflicts of interest if they arise.

All employees including the Directors are required to disclose any business interests that may result in actual or potential conflicts of interest with those of WK. If a conflict or potential conflict situation arises, the employees must seek authorisation from the appropriate Committee.

1.5. Basis of Disclosure – Application

This document has been prepared following the disclosure rules set out in MIFIDPRU 8, pertaining to the UK IFPR.

WK has adopted the FCA's transitional provisions for disclosure requirements contained in MIFIDPRU TPI2, which require the Firm to only disclose information relating to governance, own funds and own funds requirements.

In addition, the disclosure of the Firm's remuneration arrangements found in the Remuneration Section has been prepared according to the previous rules applicable to WK, which were set out in SYSC19A referred to as BIPRU rules.

- **Firm Categorisation:** WK is a non-SNI MIFIDPRU investment Firm.
- **Level of application:** The Firm is required to disclose only on an individual entity basis as per MIFIDPRU 8.1.7 rule. WK is a solo entity.
- **Reference date:** This document has been prepared as at 31 December 2022, which is the Firm's accounting reference date and the financial year-end.
- **Frequency:** Disclosure is published annually alongside the Statutory Accounts, or more frequently, if the business undergoes a significant change. The disclosures are not subject to audit and are provided solely in satisfaction of WK regulatory requirements.
- **Location:** This document is published on the Firm's website: <https://www.wealthkernel.com/>

2. Governance (MIFIDPRU 8.3)

2.1. Oversight of Government Arrangements

The affairs and operations of the Firm are organised and operated by an executive committee (**COB**) consisting of 5 Senior Managers. The Chief Executive Officer (**CEO**) has ultimate executive responsibility for the day-to-day running of the Firm. The Firm is further governed by the Board of Directors (**BoD**'s) comprising of 2 Executive Directors and 3 Non-Executive Directors.

The Executive Committee is responsible for identifying, assessing, and managing all material harms that may impact the safety of the Firm's clients, business and the markets more generally. It ensures that each of those harms identified are appropriately managed and that sufficient and adequate capital is in place to enable the Firm to continue as a going concern in the event that any of those harms should materialise.

All members of the executive committee are registered with the FCA; 2 of the 5 members are classified as Senior Management Functions (**SMF**) under SMCR, with the other 3 registered as a certified material risk taker.

2.2. Committees

The following formal committees are in place:

Board: The Board of Directors is the highest governing body for the Firm and directly accountable to its all stakeholders. Powers which are reserved to the Board, are set out in its Terms of Reference (**ToR**) and include the approval of WK's business strategies, financial statements, significant changes in accounting policies and practice, risk appetite statements, risk management framework, conduct risk policies, the appointment or removal of directors and the appointment or removal of the company secretary.

Under the Articles of Association, the Board may, where appropriate, delegate its all or any responsibilities to an individual director or a committee or any other person if it is deemed that they are most appropriate to carry out those tasks.

Council of Business (COB): WK has established an executive committee named COB. The composition of this committee includes both members of the Board and other Senior Managers of the Business Units. This is the second highest committee that deals with the daily business and regulatory affairs of the Firm and is led by the CEO. The board has delegated certain duties to COB. These are detailed in the COB ToR and include the day to day operations of the firm, the creation and execution of the firm's strategy, managing firm risks, and driving positive changes where required.

Risk Committee: WK is not required to establish a risk committee under MIFIDPRU 7.3 as it meets the conditions set out under MIFIDPRU 7.1.4R, however the firm has chosen to establish one regardless.

The role and the scope of the Risk Committee is directed by the Board and documented in Terms of Reference. The main purpose of this committee is to liaise with the Business Units (**BU's**) and identify the emerging risks that the business may face and manage them effectively. The committee reports to the Board on a regular basis with necessary Management Information (**MI**) and escalations, if any.

Investment Committee: COB delegates the authority for the day to day running of the WK Investments Business to the Investment Committee. The committee's responsibilities include amongst others, implementation and monitoring of effective policies relating to the firm's investment service, approval of any changes to the investment offerings on the WK platform and regular review of existing products in line with the New Consumer Duty.

2.3. Approach to Diversity

WK recognises that diversity is an opportunity for clients, employees and the wider firm. By valuing diverse perspectives, we can better serve our clients while helping employees achieve their professional objectives and goals. A corporate culture in which everyone feels they are valued, respected and engaged, is fundamental to our values and vision, which underpins all that we do.

WK values the innovation and creativity that diversity of thought brings to the workplace and understands that the concept of diversity, belonging and inclusion plays a critical role in establishing strong governance and maintaining a healthy culture.

The Firm's focus on the broad agenda of diversity spans across all aspects of the business, starting from the attraction of diverse talent, our continued nurturing of our current diverse talent through to education and awareness, in recognition that a content and varied workforce is a firm's greatest strength.

3. Own Funds (MIFIDPRU 8.4)

3.1. Composition of Regulatory Own Funds

The Firm's own funds are exclusively CET1 capital. As at 31 December 2021 and during the year, the Firm has complied with all externally imposed capital requirements in accordance with the rules set out in IFPR from its introduction on 1 January 2022. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in IFPR, and audited reserves with deductions as required.

Own Funds	£'000
Common Equity Tier 1 Capital	3071
Audited Capital as at 31st December 2022	3071
Additional Tier 1 Capital	-
Tier 2 Capital	-
Total Own Funds at 31st December 2022 (T1 + AT1 + T2 capital)	3071

4. Own Funds Requirements (MIFIDPRU 8.5)

4.1. K-Factor Requirement and Fixed Overheads Requirement

In accordance with MIFIDPRU TP2, the table below shows the K-Factor requirements and the Firm's Fixed Overheads Requirement ("**FOR**") based on the audited financial statements for the year ended 31 December 2022:

		£'000
K-Factors	∑ K-AUM, K-CMH, K-ASA, K-DTF & K-COH	239
	∑ K-NPR, K-CMG, K-TCD & K-CON	0
	CRR transitional provision calc for TP 2.7R 2.7 (2a)	198
Fixed Overheads Requirement		198

4.2. Approach to Assessing the Adequacy of Own Funds

WK is further required to disclose its approach to assessing the adequacy of its own funds in accordance with the Overall Financial Adequacy Rule ("OFAR") as outlined in MIFIDPRU 7.4.7R.

The OFAR requires an investment firm, at all times, to hold adequate own funds and liquid assets to:

- ensure it can remain viable throughout the economic cycle, with the ability to address any potential harm from its ongoing activities;
- allow its business to wind-down in an orderly way.

The FCA monitors this through the 'Own Funds Threshold Requirement' and 'Liquid Assets Threshold Requirement' which firms determine through their Internal Capital Adequacy and Risk Assessment (ICARA) process.

In MIFIDPRU 4.3 the Own Funds Threshold Requirement is defined as the higher of:

- Permanent Minimum Capital Requirement (PMR) [MIFIDPRU 4.4];
- Fixed Overhead Requirement (FOR) [MIFIDPRU 4.5];
- K-Factors Requirement [MIFIDPRU 4.6].

The ICARA considers the potential harms to the Firm's clients, the Firm itself and the market to determine whether increases to its capital requirements are necessary.

There is also a liquidity requirement defined as:

- The Basic Liquid Assets Requirement; Plus, the higher of:
- Liquid Assets Required for Ongoing Activities.
- Additional Liquid Assets Required for Wind-down.

4.2.1. ICARA Process

Under IFPR, the internal capital adequacy and risk assessment process (the “ICARA process”) is the core risk management process for FCA investment firms. The ICARA process is a continuous assessment of the harm a firm may pose to clients and markets as part of its ongoing business and during wind-down.

WK will review the adequacy of the ICARA process at least once every 12 months and following any material change in the firm’s business or operating model.

The ICARA process document and associated external disclosures have been reviewed in detail by senior management and therefore has had senior management input throughout the document’s development.

The ICARA process has been developed from a risk review of WK and its annual budget exercise. It is therefore already integrated into the firm’s procedures and has been approved by the Board.

The purpose of the ICARA process is to:

- Identify and monitor harms
- Identify harm mitigation
- Undertake business model assessment, planning & forecasting
- Undertake recovery action planning
- Undertake wind-down planning
- Assess the adequacy of own fund and liquidity requirements.

As part of the ICARA process, WK establishes its own funds threshold requirement and its liquid assets threshold requirement. This replaces any reference to Pillar 2 under the previous ICAAP. This is necessary to ensure the Firm remains a going concern, addressing any potential harm from ongoing activities and to ensure it would be able to facilitate an orderly wind-down. For harms not adequately mitigated through systems and controls or driven by an activity not covered by the K-Factor Own Funds Requirement, WK assesses where additional own funds and /or liquid assets are required.

The recovery action planning contains appropriate recovery actions to restore own funds and/or liquid resources to avoid breaching threshold requirements and Early Wind Down Indicators. This is used to assist the Firm when approaching trigger levels and to set out credible actions to help reserve or repair any adverse trends.

The wind-down planning includes triggers (own funds and liquid assets) and timelines. WK considers different scenarios that could cause a need to wind-down the business. These underlying drivers could result in the need for different resources (financial and non-financial) during the wind-down period. WK sets out resources aside so that sufficient own funds and liquid assets are available at all times to enable an orderly wind-down.

The ICARA process comprises three primary phases:

- Collating the different MIFID 4 minimum capital figures PMR, FOR & K-factor requirement and MIFID 4 Own Funds Threshold Requirement that is derived from them
- Conducting a detailed, structured review of the potential harms the Firm could cause and assessing whether each is material to the Firm and how much capital needed to be put aside to cover those risks
- Developing a forward-looking financial model of the Firm's operations and subjecting it to scenario testing, stress testing and reverse stress testing.

The ICARA process for the Firm was completed and the ICARA document was signed off by the Board of Directors on 05 May 2023.

4.2.2. Control Environment and Risk Management

WK operates three lines of defence model whereby:

First Line of Defence

Primary responsibility for risk identification and management lies with the Business Units (the first line of defence in risk management) where risk is seen as part of the overall business process and there is a robust framework of identification, evaluation, management and monitoring.

Second Line of Defence

Support and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans (including support in the implementation of mitigating actions) is performed by specialist Risk and Compliance functions.

Third Line of Defence

Independent and objective assurance on the robustness of the overall risk management framework and the appropriateness and effectiveness of internal control is provided by Internal Audit.

4.2.3. Own Funds Adequacy

On a monthly basis, the Firm assesses the own funds headroom against the K-Factor requirements and the ICARA assessment. Should any of the OFAR thresholds be breached, the Firm would immediately inform the FCA.

On a monthly basis, the review of potential changes to the ICARA assessment will naturally lead to a revised consideration of the own funds headroom.

4.2.4. Liquid Assets Adequacy

On a monthly basis, the Firm assesses its core liquid assets against the IFPR liquid assets threshold requirement requirements and the ICARA assessment. Should this or the wind-down threshold be breached, the Firm would immediately inform the FCA.

On a monthly basis, the review of potential changes to the ICARA assessment will naturally lead to a revised consideration of the liquidity surplus.

5. Remuneration (SYSC19A)

5.1. Basis of Disclosure

MIFIDPRU 12.8 states that non-SNI organisations with a financial year-end of 31 December continue to comply with remuneration disclosures requirements as they applied to WK in the previous financial years under BIPRU.

Disclosure on Remuneration

WK has adopted a remuneration policy that complies with Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), as interpreted in accordance with the FCA's guidance on disclosure of remuneration and BIPRU 11.5.20R.

As a former "not significant" BIPRU firm there is no requirement for WK to appoint a remuneration committee. However, WK has established a robust Remuneration policy in line with the MIFIDPRU requirements. The policy ensures that staff, management and executive remuneration is appropriately aligned with business and individual performance and is consistent with the shareholders' interest.

WK maintains a compensation program designed to attract and retain highly skilled, qualified employees. Compensation for employees typically includes a salary and other benefits. When determining compensation for its employees, WK considers several factors, including, but not limited to, the individual's performance, qualifications and experience, the relative value of each position within the Firm, and the state of the compensation marketplace for each role.

WK's compensation program is designed to promote integrity with a focus on developing a long-term business.

WK has identified 9 code staff comprising those fulfilling controlled functions, deemed risk takers and senior management.

The aggregate remuneration awarded to the code staff during the financial year ending 31 December 2022 was £715k, consisting of fixed remuneration of £490k, variable remuneration of £225k, of which there was no deferred remuneration.

WK has not disclosed code staff remuneration by business area as this information is confidential and disclosure would result in an individual's identification.