COWEN

# COWEN EXECUTION SERVICES LIMITED

# (CESL)

## DISCLOSURE

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## MAIN IFPR DISCLOSURE REQUIREMENTS

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# OVERVIEW

## 1.1 INTRODUCTION

The disclosures are prepared in accordance with the Financial Conduct Authority (FCA) MIFIDPRU 8 standards.

The disclosures aim to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on the firm's capital adequacy, risk assessment and control processes.

## 1.2 SCOPE AND FREQUENCY OF DISCLOSURES

### 1.2.1 SCOPE

The disclosures are made in respect of Cowen Execution Services Limited (CESL) for the year ended 31 December 2022. CESL is a non-SNI MIFIDPRU Investment Firm regulated by the Financial Conduct Authority (FCA).

CESL was a subsidiary of Cowen Execution Holdco LLC (registered in the USA). It is now a wholly owned subsidiary of Toronto Dominion International Pte. Ltd.

### 1.2.2 FREQUENCY

In accordance with MIFIDPRU 8.1.7, the disclosures are made on an individual basis and published on an annual basis.

The disclosures have been prepared as required under FCA MIFIDPRU 8 standards and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement about the firm.

### 1.2.3 MAJOR CHANGES

In accordance with MIFIDPRU 8.1.11, we disclose that there has been a change of ownership of the firm which is now a wholly-owned subsidiary of Toronto Dominion International Pte. Ltd., which is a Singapore-based entity

## RISK MANAGEMENT OBJECTIVES AND POLICIES

In accordance with the Transitional Provisions in MIFIDPRU TP12.6, the Firm is required to disclose the information about its risk management objectives and policies under MIFIDPRU 8.2.

### 2.1. RISK MANGEMENT FRAMEWORK

The firm has an established Risk Management Framework.

The Risk Management Framework:

- Identifies, measures, manages, monitors, and reports on the harms to the firm, the clients and the market.
- Manages the risk that the firm's conduct may pose harm to the fair outcomes for clients, or to the sound, stable, resilient, and transparent operation of financial markets.

This framework provides the Board with assurance that the firm's risks, including the risks relating to the achievement of the firm's strategic objectives, are understood, and managed in accordance with the appetite and tolerance levels set. It provides the basis for enabling the firm's ongoing assessment, control, monitoring, and reporting of risk management.

The framework is established around the following elements:

- Risk Culture
- Risk Taxonomy
- Risk Appetite
- Risk Governance
- Risk Management.

The Board has overall responsibility for the management of risk within the firm. This includes determining the risk appetite, which sets out the nature and extent of the principal risks it is willing to take in achieving its objectives and defining the standards and expectations that drive the firm's risk culture.

It also involves ensuring that the firm maintains an appropriate and effective Risk Management Framework, and monitoring performance and risk indicators to ensure that the firm remains within its risk appetite.

More information on the firm's Strategy & Risk Framework can be found in the Annual Report pages 3-5.

### 2.2. PRINCIPAL RISKS

To adequately assess the potential harm to the firm, the clients or the market, the firm has adopted a common risk taxonomy that breaks the principal risks faced by the firm into 11 broad risk categories: the risks inherent in CESL.

The major risks identified for the firm within the risk taxonomy and the actions taken to mitigate these risks are summarised in the table below.

**REGULATORY ENVIRONMENT RISK – TAXONOMY LEVEL 1** **.**

| Taxonomy | Risk | MITIGATING ACTIONS |
|---|---|---|
| **Credit and Settlement Risk** | Credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments. Settlement risk arises from failure of a settlement agent to settle trades within the agreed period. | CESL exercises controls through its policies and procedures, more specifically through selection of counterparties custodians and settlement agents (through its US affiliate). The firm also monitors the credit ratings of these firms and will reassess the relationships if Amber triggers are breached. If red trigger is breached. |
| **Operational Risk** | Operational risk is risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes a number of sub-categories of risk | CESL periodically reviews its operational policies and procedures. We also maintain a risk matrix and risk assessment which is periodically reviewed by the ARC.<br>Critical systems are regularly tested for continuity. IT security is regularly reviewed, including any incidents.<br>Critical 3rd party resilience is periodically reviewed. |
| **Conduct & Reputational Risk** | The risk of conducting improper business or market practices, causing harm to clients, or causing reputational damage.<br>The risk that through a poor culture and/or inadequate controls employees may commit fraud or are found guilty of misconduct, resulting in reputational damage and regulatory censure. | CESL has implemented and Conduct & Culture framework that places a strong emphasis of providing an environment of trust and has outlined a comprehensive and rigorous compliance framework to prevent and deter financial crime. CESL ensures that appropriate checks are in place to ensure that new employees meet conduct expectations. Measures are also in place to ensure that conflicts of interest are managed and that new products are considered for reputational risk. |
| **Market Risk** | The risk of a loss due to the performance of positions. This includes the risk of a concentrated position, which significantly reduces in value. While CESL traders are only permitted to take principal risk on a limited basis and within a conservative limit framework, it is exposed to fluctuations in market value. | Risk governance is in place, including limits, management monitoring and review, and governance processes. The monthly Senior Manager Committee and Audit & Risk Committee oversees and monitors these risks, and will actively seek to address any outsize exposure in light of market conditions. |
| **Liquidity Risk** | The risk that the firm is unable to meet its financial obligations as they fall due. | CESL's policy is to maintain cash resources with its clearing banks at a level that is well in excess of its forecast cash flow requirements.<br>Liquidity is monitored on a daily basis, and cash forecasting will be implemented on a monthly basis. CESL has a liquidity stress testing programme to provide additional assurance that liquidity measures are appropriate for the firm. |

| | | |
|---|---|---|
| **Business and Strategic Risk** | This is the risk associated with the fluctuating business cycles and economic conditions over a period of time and, if these business or economic conditions deteriorate over time, the ability of the firm to carry out its business plan and strategy or raise new capital in unfavourable conditions. | CESL monitors macro-economic factors which could impact its strategy and business model. These are regularly reported to senior management who monitor the potential effects against the risk appetite. All significant strategic decisions, including acquisitions are made with significant due diligence and management review at the most senior levels. A New Product Governance review process has been implemented to ensure all areas have reviewed their respective controls prior to new products going live. |
| **Financial and Regulatory Reporting Risk** | The risk that failures in the finance function result in inaccurate internal financial reporting, manifesting in poor decision making, and/or external financial reporting, resulting in regulatory or statutory reporting failure. | CESL has invested heavily in its Finance function and has also sought external advice to ensure that all processes and measures are in place and operation effectively. |
| **Concentration Risk** | Concentration risk is that associated with the CESL's exposure to sectoral, geographic and entity or obligor concentrations. | CESL's exposure to concentration risk is encompassed in Credit, Market, Liquidity and Operational risks (e.g. reliance on 3rd parties). |
| **Group Risk** | Group risk results from dependence of group entities for income and critical infrastructure. Also, risk in other group entities could affect CESL (e.g. reputational or funding). | CESL monitors its exposure to revenues generated through group entities and its reliance on the group for any critical processes.<br><br>It also reviews the markets and press to detect if issues with other members of the group may impact CESL's reputation or credit rating. |
| **Capital Adequacy Risk** | The risk that the firm hold insufficient capital to cover its risk exposures and must curtail or cease operations | The firm undertakes an annual capital assessment called 'Internal Capital and Risk Assessment' (ICARA) yearly and apply a series of stress-testing scenarios to its base financial projections, approved by the Board. |

# OWN FUNDS

## 3.1. OWN FUNDS

CESL's available capital resources are valued for the purposes of meeting minimum capital requirements, according to the IFRS balance sheet value of reserves, and according to the criteria set out in MIFIDPRU 3.

CESL only holds Common Equity Tier 1 items which incorporates share capital and retained earnings. The firm does not have Additional Tier 1 or Tier 2 instruments.

Further detail of the Common Equity Tier 1 items can be seen in Table 1 below, how this aligns with the balance sheet in Table 2 and the main features in Table 3.

**Table 1: Composition of regulatory own funds**

| **Composition of regulatory own funds** | | | |
|---|---|---|---|
| | **Item** | **Amount (GBP thousands)** | **Source based on reference numbers/letters of the balance sheet in the audited financial statements** |
| **1** | **OWN FUNDS** | 17,631 | Page 17 |
| **2** | **TIER 1 CAPITAL** | 17,631 | Page 17 |
| **3** | **COMMON EQUITY TIER 1 CAPITAL** | 17,631 | Page 17 |
| 4 | Fully paid-up capital instruments | 24,909 | Page 17, notes 3 and 15 |
| 5 | Share premium | | |
| 6 | Retained earnings | 3,176 | Page 16-17 |
| 7 | Accumulated other comprehensive income | | |
| 8 | Other reserves | 1,027 | Page 16-17 |
| 9 | Adjustments to CET1 due to prudential filters | | |
| 10 | Other funds | | |
| 11 | (-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER1 | 11,480 | Page 17 and note 10 |
| 19 | CET1: Other capital elements, deductions and adjustments | | |
| **20** | **ADDITIONAL TIER 1 CAPITAL** | 0 | |
| **25** | **TIER 2 CAPITAL** | 0 | |

## Table 2: Reconciliation of regulatory own funds to the balance sheet

| Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements | | | | |
|---|---|---|---|---|
| | | a | b | c |
| | | **Balance sheet as in published/audited financial statements** | **Under regulatory scope of consolidation** | **Cross reference to template OF1** |
| | | **As at 31st December 2022** | **As at 31st December 2022** | |
| **Assets -** *Breakdown by asset classes according to the balance sheet in the audited financial statements* | | | | |
| 1 | **Fixed Assets:** | | | |
| 2 | Tangible assets | 579 | | |
| 3 | Intangible assets | 11,481 | | |
| 4 | **Current Assets:** | | | |
| 5 | Debtors | 1,307 | | |
| 6 | Loans and other assets | 344 | | |
| 7 | Investments | 0 | | |
| 8 | Cash and cash equivalents | 24,911 | | |
| | **Total Assets** | 38,622 | | |
| **Liabilities** - *Breakdown by liability classes according to the balance sheet in the audited financial statements* | | | | |
| 1 | Creditors | 192 | | |
| 2 | Accruals | 9,318 | | |
| | **Total Liabilities** | 9,510 | | |
| **Shareholders' Equity** | | | | |
| 1 | Called up share capital | 7,650 | | 4 |
| 2 | Other reserves | 18,286 | | 8 |
| 3 | Accumulated retained earnings | 3,176 | | 6 |
| 4 | Less: deductions | 0 | | |
| | **Total Shareholders' equity** | 29,112 | | 1 |

## Table 3: Features of own instruments

| **Own funds: main features of own instruments issued by the firm** | |
|---|---|
| *Item referenced in the Audited Financial statements* | *Feature of Own Fund Instrument* |
| **Share Capital** | |
| Amount recognised in regulatory capital: | £ 7,650,000 |
| Instrument Type: | Ordinary shares |
| Nominal amount of instrument: | £ 7,375,000 |
| Issue price: | £ 0.50 |
| Accounting classification: | Ordinary Share capital |
| Instrument Type: | Class A shares |
| Nominal amount of instrument: | £ 275,000 |
| Issue price: | £1.00 |
| Accounting classification: | Ordinary share capital |

# OWN FUNDS REQUIREMENT

## 4.1. OWN FUNDS REQUIREMENT

In accordance with MIFIDPRU 4.3.2, the firm is required to maintain own funds that are at least equal to its Own Funds Requirement at all times.

The Own Funds Requirement is the greater of:

| **As at 31 December 2022** | **Amount (£000')** |
|---|---|
| Permanent Minimum Requirement (PMR) | 730 |
| Fixed Overhead Requirement (FOR) | 5,810 |
| K-Factor requirement | 447 |

| | | |
|---|---|---|
| Sum of | K-AUM, K-CMH and K-ASA | 0 |
| Sum of | K-COH and K-DTF | 408 |
| Sum of | K-NPR, K-CMG,K-TCD and K-CON | 39 |

| | |
|---|---|
| Own Funds Requirement | 5,810 |

CESL had a significant surplus of Own Funds over Own Funds Requirement throughout the year with a surplus of £8.5m at the year-end 31 December 2022.

## 4.2. ADEQUACY OF OWN FUNDS

In accordance to the Overall Financial Adequacy Rule (OFAR), the firm must at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

- 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 to other market participants.

An assessment is carried out as part of the Internal Capital Adequacy and Risk Assessment (ICARA). The firm calculates its own internal risk assessment of ongoing activities by identifying all risks and considering their materiality, including those that are not captured under the defined K-Factor requirements. The higher of the internal risk assessment and the funds required for an orderly winddown is used as the Own Funds Threshold Requirement and Liquid Assets Threshold Requirement which the firm is required to hold at any point in time to comply with the OFAR.

The ICARA assessment is produced annually or more frequently, if a there has been a material change to the business model.

The internal risk assessment once approved is monitored daily as an integral part of the Risk Management Framework. The Executive Risk Committee considers all risks that could change.

## GOVERNANCE

The Firm's Board and senior management believes that this existing departmental structure ensures effective and prudent management of the firm, including the segregation of duties in the Firm and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of clients.

The firm's Board takes overall responsibility and defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the firm, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of clients (in terms of SYSC4.3). This includes:

- Approves and oversees implementation of the Firm's strategic objectives, risk strategy and internal governance;
- The integrity of the Firm's accounting and financial reporting systems, including financial and operational controls and compliance with the regulatory system.
- Oversight of disclosure and communications;
- Oversight of senior management;

Directorships held by Board members outside of CESL or group companies:

| Director | Number of executive directorships | Number of non-executive directorships |
|---|---|---|
| Michael Page | 1 | |
| John Holmes | 1 | |

The firms' Diversity and Inclusion Policy sets out a commitment to creating an environment that ensures that everyone is treated with fairness, dignity, and respect.

Gender Pay is also an important metric for the firm. The firm continues to work to improve its monitoring, developing real-time metrics and a more robust grading structure to improve the metrics.

These activities, supported by the Board and Senior Management, have ensured that inclusion is being considered and discussed in decision making and as part of the review of many business processes. The firm continues to build on the foundations of everyday inclusion through further training, development of policies and practices along with further embedding an inclusive culture for all employees.

The firm has established an Audit and Risk Committee which complies with the requirements of MIFIDPRU 7.3.1.