Onyx Commodities Limited - IFPR Disclosure 2023

Introduction

In accordance with the Financial Conduct Authority's ("FCA") UK Investment Firms Prudential Regime, ("IFPR")[1] Onyx Commodities Limited ("Onyx" or "the firm") is required to disclose the following:

1) Governance arrangements
2) Own funds requirements
3) Own funds
4) Risk management policies
5) Remuneration policy and practices

This disclosure covers Onyx's 2022/2023 financial year.

1) Governance arrangements

In accordance with MIFIDPRU 8.3, Onyx is required to disclose certain internal governance arrangements. Effective governance arrangements help a firm achieve its strategic objectives while also ensuring that risks to the firm, its stakeholders and the wider market are identified, managed and mitigated.

Onyx's governance framework:

- Safeguards overall responsibility for the firm;
- Approves and oversees the implementation of strategy objectives and risk strategy;
- Ensures the integrity and accuracy of the firm's operations including but not limited to accounting, financial reporting, legal and compliance; monitoring and
- Provides responsibility for delegation and effective oversight of senior management and all other staff.

Overview

Board of Directors

- Onyx's Board of Directors includes its Chief Executive Officer, Chief Investment Officer and Non-Executive Chairman.

Management Committees

- Onyx maintains several Management Committees which have delegated responsbilities from the Board. Committees include (but are not limited to) Onyx's Operational Committee, Remuneration Committee and Risk Committee.

Functional Staff

- All other staff within the business, including Trading, Technology & Infastructure, Finance, Risk, Data, Legal & Compliance and Human Resources.

[1] https://www.handbook.fca.org.uk/handbook/MIFIDPRU/8/?view=chapter

Board of Directors

The Board is collectively responsible for:

- setting an appropriate risk strategy and appetite;
- promoting a comprehensive risk culture and awareness;
- monitoring the implementation of the firm's risk strategy;
- ensuring the independence of the control functions such as Compliance and Risk; and
- verifying that independent control functions operate correctly and effectively.

	External Executive Directorships Held	External Non-Executive Directorships Held
Chief Executive Officer	2	0
Chief Investment Officer	1	0
Non-Executive Chairman	0	0

Diversity

Onyx strives for diversity and inclusion on its management body, and does not discriminate on the basis of gender, ethnicity or any other protected characteristics in accordance with the Equality Act 2010.

2) Own funds requirements

In accordance with MIFIDPRU 8.5, Onyx is required to disclose the following:

K-DTF (Daily Trading Flow)	£2,104,566
K-NPR (Net Position Risk)	£38,775,329
KFR Total (K-Factor Requirement / Own Funds Requirement)	£40,879,895
FOR (Fixed Overhead Requirement)	£6,240,000

Firms must assess whether further capital needs to be held to cover any risks the Own Funds Requirement does not account for. The result of this assessment is the Overall Financial Adequacy Rule ("OFAR"). In accordance with the OFAR, Onyx assess the risks associated with the business model and consider whether any additional capital is required to mitigate them should they materialise. This includes considerations of wind-down costs and whether the requirements under the IFPR cover the risks to market, firm and clients.

Onyx concluded that from an Own Funds perspective, the K-Factor requirement represents a suitable level of capital for the firm to remain viable throughout the economic cycle. Therefore, Onyx have not set a separate fixed OFAR figure, but will monitor and maintain sufficient Own Funds in line with the K-Factor Requirement.

3) Own funds

In accordance with MIFIDPRU 8.4, Onyx is required to disclose the following:

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**	**94,264**	
2	**TIER 1 CAPITAL**	**94,264**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**94,264**	
4	Fully paid up capital instruments	2	Page 15
5	Share premium		
6	Retained earnings	91,681	Page 15
7	Accumulated other comprehensive income		
8	Other reserves	2,581	Page 15
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
20	**ADDITIONAL TIER 1 CAPITAL**	**0**	
21	Fully paid up, directly issued capital instruments		
22	Share premium		
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
24	Additional Tier 1: Other capital elements, deductions and adjustments		
25	**TIER 2 CAPITAL**	**0**	
26	Fully paid up, directly issued capital instruments		
27	Share premium		
28	(-) TOTAL DEDUCTIONS FROM TIER 2		
29	Tier 2: Other capital elements, deductions and adjustments		

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
Figures in GBP thousands				
		a	b	c
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross reference to template OF1**

		As at period end	As at period end	
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Tangible assets	1,082		
2	Debtors	138,003		
3	Cash at bank and in hand	13,434		
4	**Total Assets**	**152,519**		
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1	Creditors: amounts falling due within one year	58,058		
2	Provisions	196		
3	**Total Liabilities**	**58,254**		
Shareholders' Equity				
1	Called up share capital	2		Item 4
2	Capital contribution reserve	2,581		Item 8
3	Profit and loss account	91,682		Item 6
4	**Total Shareholders' equity**	**94,265**		

4) Risk management policies

<u>Own funds</u>

The Own Funds Requirement under the Investment Firms Prudential Regime is a reflection of the risk that a firm poses to clients, itself and the wider market. The figure reflects the level of capital that is required to cover the risks that the firm poses. Onyx ensures that at all times, the Own Funds held are higher than the Own Funds Requirement. Maintaining compliance with the capital requirements set by the FCA is one of the firm's highest priorities.

Onyx's Own Funds Requirement is dominated by its Net Position Risk due to the fact that the firm is a liquidity provider in commodity derivatives. The only two K-Factors applicable to Onyx are Net Position Risk (K-NPR) and Daily Trading Flow (K-DTF). As per the Own Funds figures above, Onyx's Own Funds Requirements are driven by the NPR figure, comprising around 95% of the overall requirement at June-end 2023.

The dominant K-Factor, K-NPR, is classified as a "Risk-to-Market" measurement by the FCA, which is in line with Onyx's assessment of potential harm associated with its business model. Failure of the firm would have an impact on wider energy derivative markets due to the significant liquidity that Onyx provides. Loss of such liquidity would likely create more volatile market conditions. Managing and mitigating Onyx's risk to market is described in detail in the firm's ICARA and Risk Framework documents.

Onyx treat the Own Funds Requirement with the highest priority and are therefore proactive in the monitoring and management of the capital position.

The NPR calculation is an assessment of all Onyx's positions and their notional value; it therefore changes every business day. In light of this, Onyx generate the NPR and DTF figure daily to calculate the Own Funds Requirement to which Onyx is subject. Onyx are aware that times of volatility and increased market prices can push up the NPR figure, so the calculation is closely monitored, and a capital buffer is maintained to avoid close calls or breaches.

Onyx operate with an additional, more conservative threshold limit in place, which triggers internal actions when surpassed. These actions can include reducing positions in order to reduce the NPR figure. Onyx's Risk Team also monitors live and intraday risk.

Daily Trading Flow is more stable and is recalculated once a month. It is nonetheless taken into account as part of the daily assessment of Onyx's Own Funds Requirement.

Liquidity

Liquidity Risk arises when a firm is unable to meet its short term financial obligations as they fall due.

The potential harm of liquidity risk associated with Onyx's business strategy is limited because all transactions are cleared and Onyx has no clients. As such, outgoing payments are limited in size and number, for example, to third party service providers or routine business costs. These costs are not significant and do not put pressure on the liquidity position of the firm.

Onyx also has a strong liquidity position consisting of CET1 capital as a result of its consistent trading profits. Regardless, Onyx monitors its liquidity position against its requirement on a daily basis.

Concentration

Onyx has no clients and all trades are cleared, therefore Onyx does not have any counterparty exposure in its trading book. The concentration risk to firm and the wider market is considered minimal as a result of this.

Concentration risk in exchange traded products and contracts is managed by the Onyx Risk Team to ensure significant exposure to specific contracts and cuts of the barrel is limited. Concentration risk in is monitored daily by the Risk Team.

5) Remuneration policy and practices

Qualitative disclosures

Onyx's business strategy is to develop and expand its liquidity provision. Onyx's remuneration policy encourages staff to responsibly promote the success of the business through their role.

The Remuneration Committee aim to incentivise and reward staff. Onyx's policy has been written in line with the firm's cultures and values. Performance criteria includes both financial and non-financial indicators, but will differ depending on an individual's role within the firm. Onyx encourages responsible business conduct and fair treatment of any other market participants. Performance assessments include considerations of business strategy and objectives, compliance with regulatory obligations, culture and conduct, and adherence to effective risk management. These assessment considerations, derived from the firm's risk profile, discourage any behaviour or action which could cause detriment to the business or wider market.

All remuneration paid to staff is clearly categorised as either fixed or variable. Such fixed remuneration must be and is recognised as adequate compensation to an individual for the provision of their services in accordance with a contract.

All employees receive a salary as agreed in their contract, which comprises the fixed part of their remuneration.

The main form of variable remuneration available to Onyx's Code Staff, is an annual, discretionary cash bonus dependent both on their own individual performance and that of Onyx's. All employees are eligible.

Financial performance is an important factor in the calculation of any variable remuneration. Onyx's measurement of financial performance is assessed based on profit (not revenue or turnover). Awards will reflect Onyx's financial performance and as such, variable remuneration will be contracted where subdued or negative financial performance occurs.

All end-of-year discretionary bonuses can be considered ex-post adjusted as they are a reflection of both the firm and individual's performance, so are adjusted accordingly. In light of this, there is by default, no ex-ante adjustment made to the variable remuneration amounts because they are based on historical data.

Onyx does not reward failure and maintains controls around malus and clawback. Examples of where malus may be applied, include (but are not limited to):

- cases of fraud or other conduct with intent or severe negligence which led to significant losses;
- where the Material Risk Taker ("MRT") in question participated in or was responsible for conduct which resulted in significant losses to firm, or
- where the MRT in question failed to meet appropriate standards of behaviour and/or fitness and propriety.

In the case of early termination of a contract, any payments will reflect performance achieved over time.

In both measuring and allocating variable remuneration, Onyx's Board will make qualitive judgements, making due recourse to the firm's Internal Capital Adequacy and Risk Assessment ("ICARA"), and will consider the current and future risks faced by the firm. Considerations include capital, liquidity and own funds planning in line with the ICARA, in addition to the assessment of risk. Onyx does not award guaranteed variable remuneration.

Onyx identifies Material Risk Takers as any members of the firm's management body, senior management or any individual with managerial responsibility for certain areas of the business. All Proprietary Traders and Direct Traders are also included.

Quantitative disclosures

	Senior Management	**Other MRTs**	**All Other Staff**
Number of Staff	12	32	37
(GBP thousands)			
Total Fixed Remuneration	1,499	2,051	1,313
Total Variable Remuneration	5,227	38,749	79
Total Awarded Remuneration	6,726	40,800	1,392

Severance payment information has been redacted in accordance with MIFIDPRU 8.6.8 R (7) to prevent the identification of an MRT

Onyx Commodities Limited and Onyx Capital Advisory Limited share multiple Senior Managers who provide services to both firms. Where a Senior Manager provides services to both firms, they have been included in the Senior Manager head count for both firms, however their remuneration has not been double-counted and has been included solely in the disclosure of their employer.