

Pershing Securities Limited

Strategic report, Directors' report and financial statements

Registered number 02474912

31 December 2021



Pershing Securities Limited

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Pershing Securities Limited

Board of Directors and other information

Directors

E Canning

L Dobson

E Gilvarry

J Jack

M McPhail (Chair)

Secretary

BNY Mellon Secretaries (UK) Limited

160 Queen Victoria Street

London

EC4V 4LA

Independent Auditor

KPMG LLP

15 Canada Square

London

E14 5GL

Registered office

Royal Liver Building

Pier Head

Liverpool

L3 1LL

Registered number

02474912

Pershing Securities Limited

Strategic report

In accordance with Section 414A(1) of the Companies Act 2006, we have prepared the Strategic report which includes a review of Pershing Securities Limited's ("the Company") business and future developments, a description of the principal risks and uncertainties facing the Company and key performance indicators. We also report against miscellaneous reporting requirements set out in Section 172 of the Companies Act 2006.

Business review

The Company continues to invest in its digital platform and service infrastructure to take advantage of the opportunities presented by the wealth and institutional markets. The Company made profit before tax of £12,712,000 (2020: £17,533,000) for the year. There have been no significant changes in the Company's core operations during the year. As we execute on our investment plans, there continues to be a focus on securing new opportunities with key prospects as well as ensuring continued engagement and high quality servicing of our key foundation clients.

The Company has considerable financial resources relative to the size of the balance sheet together with long term contracts with a number of clients. The Company has generated own cash reserves over past years, and maintains a strong liquidity position in highly liquid UK and US government securities in addition to renewing and reviewing its credit facilities to ensure sufficient capacity to support the growth in business. As a consequence, the directors believe the Company is well placed to manage its business risks successfully despite the current economic outlook. The Company holds £164,820,000 (2020: £133,420,000) of investments in UK and US government securities as a liquid asset buffer, in order to mitigate liquidity risk and adhere to FCA liquidity rules.

Financial key performance indicators

The Company's key financial and other performance indicators during the year were as follows:

	2021 £000	2020 £000	Change £000	Change %
Revenue	104,340	103,890	450	-%
Administrative expenses	94,765	90,818	3,947	4%
Profit before taxation	12,712	17,533	(4,821)	(27)%
Net assets	145,629	138,010	7,619	6%

Revenue increased by £ 450,000 (-%) during the year as assets under custody increased which was offset by a decrease in treasury returns.

Administrative expenses increased by £3,947,000 (4%) during the year with an increase in software associated expenditure.

Net assets increased by £7,619,000 (6%) during the year, resulting from the profit after tax for the year and movements in other comprehensive income as shown on page 21.

Principal risks and uncertainties

The principal risks and uncertainties affecting the business have been considered and addressed in the Directors' report on pages 6 to 14.

Pershing Securities Limited

Strategic report - continued

Companies Act 2006 s.172 miscellaneous reporting

Section 172 of the Companies Act 2006 requires directors to run the company for the benefit of its members as a whole. In doing so the Board is required to: take into account the long-term impact of their decisions; maintain strong stakeholder relationships; consider impacts of the firm on the wider, external environment; and ensure the firm maintains a reputation for high standards of business conduct. The Company is an indirect subsidiary of The Bank of New York Mellon Corporation (the ultimate parent) (ownership is detailed in note 21).

The following disclosure provides insight into how the Board discharges its duties under Section 172 including the breadth of matters discussed and debated during the year.

In reviewing its strategy in 2021, the Board considered how the Company could continue to pursue its growth by focusing on building valuable client relationships and gaining competitive advantage through a high performing team. As part of considering this strategy, the Board paid due attention to promoting the success of the company and the likely longer-term impact of the decisions made.

Each Board meeting follows a carefully tailored agenda agreed in advance by the Chair, CEO and Company Secretary. A typical meeting includes consideration of financial performance, risk and compliance management, progress against the Board's chosen strategy, and, of course, our people.

The Company's Executive Committee ensures that key issues raised by stakeholder feedback are brought to its attention as part of the regular updates from the relevant forums and governing committees. Where appropriate, the Executive Committee would escalate any matters of concern to the Board. This is covered in more depth in the Directors' report.

The main areas of the Board's focus in 2021 were:

- Execution of its Strategy;
- Significant projects;
- Implementation of change in regulation and/or market practice;
- New clients;
- Changes affecting employees; and
- Significant or long term vendor contracts.

More information about these focus areas is contained in the Directors' report.

Impact on the community and environment

The Company is regulated by The Financial Conduct Authority ('FCA') and operates within its rules and guidance.. Furthermore, the Company is an active member of various industry groups and they are considered part of the professional environment in which the Company operates. The directors have a strong, open and transparent relationship with the FCA.

The Company is also aligned with the BNY Mellon Group on matters affecting the community and the environment. BNY Mellon is included in the 2021 Bloomberg Gender Equality Index, CDP Climate Change 'A List', Fortune World's Most Admired Companies and the Human Right Campaign's Corporate Equality Index.

Pershing Securities Limited

Strategic report - continued

Impact on the community and environment - continued

The Board acknowledges and is fully supportive of the need to proactively support environmental and social awareness and support and invest in community partnerships. Company funded incentives encourage employee participation to give back to the community and this is supported via a formalised community partnership programme. The growing demand for sustainability extends to sustainable investing and Environmental, Social and Governance is a key area for investment for the BNY Mellon Group.

High standards of business conduct

The Board initiated the expansion of the culture-focused framework into an enhanced 'Conduct and Culture' framework that addresses increased regulatory and industry expectations. Work undertaken included performing an assessment of the Company's culture and approach to conduct risk management, with a particular focus on the Financial Conduct Authority's Five Conduct Questions Programme. Through cultivating a high performance culture the Company offers a value proposition to attract and retain clients.

Through cultivating a high performance culture the Company offers a value proposition to attract and retain clients whilst becoming embedded in the client's business model.

All Senior Managers, Certified Persons and Conduct Rules ("SM&CR") staff undertake ongoing SM&CR training sessions. The aim of SM&CR is to reduce harm to consumers and strengthen market integrity by creating a system that enables firms and regulators to hold individuals to account. SM&CR aims to:

- encourage staff to take personal responsibility for their actions;
- improve conduct at all levels; and
- make sure firms and staff clearly understand and can demonstrate the roles and responsibilities of all relevant staff.

The Board acknowledges the benefits for all of its stakeholders in aligning with, and leveraging where possible, BNY Mellon Group policies and the provision for matters such as employee support and wellbeing, cyber security and data governance and operational resilience.

Taking employee's interests into account

The Board promotes a high-performance culture by managing talent, strengthening employee engagement and ensuring effective employee communications. In recognition that improving diversity in decision-making increases innovation, improves outcomes and drives employee engagement, the CEO sponsored the launch of a Shadow Executive Committee ("ExCo"). The objective being to provide the future leadership with an opportunity to develop strategic skills beyond their existing role with meaningful activities and a senior mentor within the business.

The Company has aligned with the BNY Mellon focus on Vision, Purpose, Values & Behaviours. These newly articulated principles are foundational to our Culture and enhance our People's sense of belonging. This work alongside work focusing on Return to Office and Future of Work support our Purpose Driven Growth Agenda within which we articulate our intentions relating to Solutions, Operating Model, ESG and the Cultivation of Talent.

Business and future developments

During 2022, the Company will continue to execute its primary business of providing financial services firms with a comprehensive range of products and services based around its traditional business model of execution and post trade services. The Company will continue to invest in its infrastructure and identify centres of efficiency in order to improve upon its financial position. The directors will continue to seek opportunities to develop the Company's business ensuring that the wider stakeholder group continues to be appropriately involved and informed.

Pershing Securities Limited

Strategic report - continued

COVID-19

The Board continues to monitor and manage the COVID-19 situation and believes that the fundamentals underpinning the Company's strategy remain intact.

Approval

By order of the Board

Lee Dobson

Lee Dobson (Apr 21, 2022 17:22 GMT+1)

L Dobson
Director

Date: 21 April 2022

Pershing Securities Limited
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Registered number: 02474912

Pershing Securities Limited

Directors' report

The directors present their report and financial statements for the year ended 31 December 2021.

Principal activities

The principal activity of the Company continues to be the provision of a full range of execution, middle office and post-trade services, investment administration, SIPP (Self-Invested Personal Pension) operation services and related services.

The Company is a member of the London Stock Exchange and the Frankfurt Stock Exchange and is authorised and regulated by the Financial Conduct Authority ("FCA"). All the Company's activities during the year were regulated and conducted within the scope of permissions granted to the Company by the FCA. The Company is a general clearing member of LCH Clearnet SA, Eurex Clearing AG, and the European Multilateral Clearing Facility N.V.

Results and dividends

The profit for the year after taxation amounted to £8,447,000 (2020: £12,683,000).

The directors do not recommend a dividend for the year ended 31 December 2021 (2020: £nil).

Future developments

See 'Business and future developments' section in Strategic report for details.

Political donations

The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Risk management

Governance and policies

Policies and procedures are in place to govern and manage the business. Suitable policies and procedures have been adopted by the Company in order to ensure an appropriate level of risk management is directed at the relevant element of the business.

Governance of the Company is ultimately the responsibility of the Board of Directors. The Board is responsible for the ongoing success and development of the Company's business as well as setting the risk appetite for the Company as part of the risk framework.

The Company's risk management policy and framework is aligned with that of all the operating entities under Pershing Holdings (UK) Limited ("the Pershing Group"). The Pershing Group adopts a proactive approach to the identification and management of risk and has implemented a risk management framework that seeks to employ industry best practice, while meeting all of its regulatory and legal obligations.

Pershing Securities Limited

Directors' report - continued

Risk management - continued

Governance and policies - continued

Key committees are in place to oversee compliance and risk management of the business and to ensure adequate risk management and controls are in place. Each committee has clearly stated terms of reference and reporting lines.

The key committees include:

- Executive Committee
- Pershing Risk Committee
- Asset and Liability Committee
- Business Acceptance Committee
- Credit and Market Risk Committee

Risk management process

The Company's risk management procedures have been designed to integrate with The Bank of New York Mellon Corporation Group ("BNY Mellon" or "Group") procedures and to provide consistent capture, management and governance of risks within the Company. Processes are aligned around the elements of the risk management cycle (Identify, Measure, Manage and Report) and include the requirements of good governance and effective capital planning as key elements.

The Company has developed a Risk Management Framework which is embedded in business processes and is described in more detail below.

Through the Risk and Control Self-Assessment ("RCSA") process, which forms the cornerstone of the framework, business functions are responsible for actively identifying the risks associated with key business processes, business change or external threats, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls. The objective of the RCSA process is to ensure controls are effective in preventing or minimising:

- Errors or service delivery failures, especially those with impact on clients
- Financial losses
- Compliance breaches
- Reputational damage

The Company utilises the Group Risk Management Platform ("RMP") to manage and record risk management processes. The RMP is used to maintain risk and control self-assessments, key risk indicators and track operational risk events. Risk Management works in partnership with the business to ensure that there is adequate understanding and assessment of, and accountability for, all risks that relate to the Company.

The Company's risk appetite is commensurate with local business and regulatory requirements, within the guidance set by the Group and in coordination with the relevant business expertise.

Risks identified are measured, reported and monitored as part of the risk management framework and are overseen by the Pershing Risk Committee. The reporting measures risk and capital against risk appetite and regulatory capital requirements, as well as overseeing the internal capital adequacy and liquidity assessment processes.

Pershing Securities Limited

Directors' report - continued

Risk management process - continued

Credit risk

Credit risk covers default risk from counterparties or clients for securities traded where realisation of the value of the asset is dependent on counterparties' ability to perform. Should a credit risk event occur at a client or market counterparty, the residual credit risk (i.e. post mitigation) will devolve to market risk, as the exposure in such cases is the movement in the underlying stock and foreign currency prices.

Risk mitigation is provided through the requirement of clients to deposit collateral with the Company in support of their indemnifying the Company against any losses and the Company also reserves the right to realise unpaid securities and sell assets held for the account of a defaulting underlying client.

Market risk

Market risk is the risk of loss due to adverse changes in the financial markets. Besides the market risk resulting from credit risk (above), market risk arises from foreign exchange exposure in respect of revenue, expenses and borrowings, and interest rate exposure on cash balances and borrowings.

To the extent that market risk arises from a credit risk event, mitigation is provided through the requirement of clients to deposit collateral with the Company in support of their indemnifying the Company against any losses as mentioned above.

The Company's exposure to interest rate risk is not deemed to be material given that it relates predominantly to client money balances.

For net investment in foreign subsidiaries which are not denominated in USD, the Group hedges foreign exchange exposure at the consolidated level and therefore subsidiaries are not required to hedge such structural foreign exchange exposure independently.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk.

An independent Operational Risk Management ("ORM") function is responsible for the oversight of the operational risk framework and partnering with the business to manage their operational risk.

The Company seeks to manage operational risk through a collection of complementary processes which are designed to enable risks to be consistently identified, measured, managed and ultimately reported through the governance structure.

Operational risk is managed within the limits set by the Company's Risk Appetite Statement. The RCSA identify and score key risks for materiality, along with a measure of the associated control effectiveness, both in terms of design and operation. Risks and associated controls are monitored using an array of key risk indicators and an ongoing analysis of Operational Risk Event reports by both business functions and ORM. A number of key operational controls are tested through the annual Compliance Monitoring Plan and internal control testing as well as being independently tested through the ISAE 3402 Service Auditor's Assurance Report conducted by KPMG LLP.

Pershing Securities Limited

Directors' report - continued

Risk management process - continued

Liquidity risk

Liquidity risk is the risk that a company, although balance sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms. Liquidity risk can arise from funding mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, low overnight deposits, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks can also affect the liquidity risk profile and are considered in the liquidity risk management framework.

The Company is subject to the Group Liquidity Policy. It is the responsibility of all Group companies to maintain liquid resources that are adequate in both amounts and quality. The Company has adopted an internal liquidity policy (based on the Group policy) which has been approved by the Asset and Liability Committee and the Board of Directors and outlines the liquidity framework, annual stress testing programme and liquidity risk tolerance levels. Monthly liquidity analysis is carried out by the Finance function and reported to the Pershing Risk Committee and Asset and Liability Committee.

Business risk

Business risk includes risk to a company arising from changes in its business, including the risk that the company may not be able to carry out its business plan and its desired strategy.

Business risk is managed through the Company's Risk Framework. Key risks are monitored and reported to the Pershing Risk Committee, the Executive Committee and the Board.

Compliance risk

Compliance risk covers the risk relating to earnings or capital from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose the company and its executives to fines, payment of damages, the voiding of contracts and damaged reputation.

The Company's compliance arrangements are inherently risk-based. The arrangements are supported by regular compliance assessments which identify and measure areas of compliance risk and help drive the Compliance Monitoring plan which focuses on those areas of the business identified as being of higher risk. The compliance arrangements also include a programme to identify and support the implementation of regulatory change items of relevance to the Company. In addition, the Company ensures that all staff receive adequate compliance training so that they understand their regulatory responsibilities and the relevance of compliance risk to their roles.

Conduct risk

Conduct risk is defined as the risk that detriment is caused to clients, the market, the company or its employees because of inappropriate execution of business activities or inappropriate behaviour by the Company or its employees.

The Company is subject to the Group Conduct Risk Policy and Code of Conduct. It sets out clear expectations of the roles of senior management in setting the appropriate tone and includes examples of good and poor conduct. Employees receive periodic training on conduct related matters and are required to complete an annual process to confirm adherence to the Code of Conduct. Conduct related management information is captured and provided to the Pershing Risk Committee and reviews of conduct related matters can be included in the scope of Compliance Monitoring and/or Internal Audit assurance reviews.

Pershing Securities Limited

Directors' report - continued

Pillar 3 risk disclosures

Capital Requirements Regulation Pillar 3 disclosures about the Company (capital and risk management) are covered by the Pershing Holdings (UK) Limited Group disclosures which can be found on the Group website (<https://www.bnymellon.com/us/en/investor-relations/other-regulatory.jsp>).

Capital Requirements Directive IV disclosure

Institutions are required to publish details of their revenue, employment, profits, taxation and any public subsidies on a country by country basis under the Capital Requirements Directive IV ("CRD IV") from 1 January 2015.

Article 89 of CRD IV requires institutions to report the following information by member state and third countries in which it has an establishment:

- a) Nature of activities and geographical location (see Principal activities on page 6 and disclosure note 3 on page 40), all based in the United Kingdom;
- b) Revenue (see disclosure note 3 on page 40), all generated in the United Kingdom;
- c) Number of employees on a full time equivalent basis (none);
- d) Profit and loss before taxation (see Statement of profit and loss on page 20), all generated in the United Kingdom;
- e) Tax on profit or loss (see disclosure note 9 on page 43), in addition tax paid in 2021: £3,826,063 (2020: £3,997,729);
- f) Public subsidies received (none).

New Prudential Regime for MiFID investment firms

The Investment Firms Prudential Regime (IFPR), which aims to streamline and simplify the prudential requirements for MiFID investment firms that are prudentially regulated by the Financial Conduct Authority in the UK (FCA investment firms), came into force on 1 January 2022 and replaces the CRD IV regime for FCA investment firms. Accordingly 2021 will be the last year the disclosure requirements of Article 89 of CRD IV will apply to the Company. Going forward, the Company will comply with the disclosure requirements of the MIFIDPRU Prudential sourcebook.

Business relationships with suppliers, customers and others

The directors fully recognise the importance of balancing the interests of its internal and external stakeholders: clients, employees, industry groups, regulators, its shareholder and vendors. The Board's composition, and the supporting governance structure it delegates to, have been designed to ensure full consideration is given to meeting the best interests of its stakeholder groups and it understands the issues escalated.

Employees carry out their processes and procedures and when issues occur from their liaison with clients, market practice, regulators or vendors that cannot be easily resolved, these are escalated to their managers or committee members who use their professional judgment whether to raise such issues in the relevant committee. The committees listed on page 6 will assess a considered response from the quorum of committee members, including a subject matter expert, and maintain appropriate minutes to detail the discussion and decisions made, noting due consideration of their associated immediate as well as longer term impacts.

The Board receives updates through its regular reports and/or specific escalation from the committee structure. Examples of matters brought to the Board's attention through the aforementioned committees includes:

1. **Implementation of changes in regulations, or market practice.** Typically a new regulation or market practice may have an impact on employees needing to make a change in processes or procedures to operate in a different way. This may require a technological development either in house or by a vendor. Requests are raised and considered in technology forums, and approved by the prioritisation process; or if a new vendor service is required this will follow the Group's procurement process. Clients are updated on our progress with these matters through compliance webcasts and bulletins.

Pershing Securities Limited

Directors' report - continued

Business relationships with suppliers, customers and others - continued

2. New business pipeline covering new business development and key client activity. Typically, the Board will see significant requests from the following areas:
 - a. New or renewal of client contracts and requests for amended price or service. Requests are discussed with clients and prospects and proposed through the Business Acceptance Committee; and
 - b. Requests received for information of capabilities and pricing from existing and future clients, within our existing service range of institutional or wealth based financial services clients looking for part or all or a future consideration of our product offering, or indeed a service outside of our existing product range. The Company is open for business and actively seeks new proposals to augment its future prospects.
3. Impact of changes affecting employees.

In 2021 the Board received updates from Human Resources addressing the outcomes of the Company's people agenda. Throughout the year, these updates provided insight into the impact and outcome of the COVID-19 pandemic environment and return-to-office, talent, wellbeing, attrition, recruitment, and culture within the Company.
4. Vendor contracts are typically brought to the Board's attention if there are any significant new requirements, renewals or amendments. The vendor engagement process involves a request being raised by an engagement manager to the Group's procurement team who will follow the risk assessment and selection process to contact an appropriate vendor.

During 2021, the Board received and discussed updates, escalated via its committee governance structure in a number of areas:

- The successful realisation of its near term strategy which set a course for continued increase in returns set by the shareholder; and
- Agreement of the continuation this strategy, informed by the current competitive environment, the needs of our clients and the availability of investment options to support continued growth.

The Company also aligns with its Group to leverage numerous policies and provisions for the benefit of all its stakeholders.

In addition to the above the Board sought and received assurance over the governance and input from Management in preparing a number of regulatory submissions/policies:

- Capital Management Policy;
- Internal Capital and Risk Assessment ("ICARA") Stress Scenario;
- Internal Capital Adequacy Assessment Process;
- Internal Liquidity Adequacy Assessment Process;
- Liquidity Policy;
- Quarterly Liquidity Stress Test;
- Recovery Plan;
- Resolution Pack; and
- Wind Down Plan.

Geopolitical and other macro-environmental risks

The Company is exposed to geopolitical risks associated with political instability, terrorists acts, military conflicts, civil unrests and tensions between countries, which could impact its clients and cause disruption to business operations. In addition, epidemic and pandemic outbreaks are becoming more frequent and severe, and these could cause severe economic impacts on business sectors, economies and societies.

Pershing Securities Limited

Directors' report - continued

Business relationships with suppliers, customers and others - continued

The COVID-19 pandemic continues to remain dynamic and has led to a continued level of uncertainty. To ensure the health and wellbeing of its people and continuing ability to service its clients, the wider BNY Mellon Group moved to a largely working-from-home model during 2020 and 2021, during which period the Company and the Group implemented enhanced monitoring and oversight controls. A conservative and measured approach continues to be adopted whilst the Group's employees return to office as the COVID-19 pandemic subsides. Additionally, the US, the UK and the EU have imposed sanctions and threatened to expand them significantly against Russia in response to an increasing risk with its conflict with Ukraine which, together with any military conflict, could impact global markets as well as the Company and its customers. Management continues to monitor developments and seek to manage the associated impacts on customers, service delivery and business operations.

Financial statement consideration

Particular focus has been on the Company's key areas of significant judgment and estimation uncertainty. As disclosed in note 1.17, specifically provisions.

1. During the year, the Company had an increase in revenue primarily driven by an increase in assets under custody indicating that the pandemic has had no adverse impact on the level of assets administered by the Company.
2. The Company continues to closely monitor the impact of market volatility on its balance sheet and currently has sufficient liquidity in excess of its regulatory requirement. The Company continues to monitor the risk of Central Bank interest rate movements.
3. No provisions have arisen as a result of management's actions specifically in response to the impact of pandemic.

Company's operational resilience

Management has assessed the impact of COVID-19 on the Company's existing operational processes and its potential impact on its key stakeholders.

1. *Customers:* There has been no significant interruptions on customer related processes and activities. The Company has continued to administer services to its customers.
2. *Suppliers:* Through the Company's proactive outreach programme to its third party providers, management has continued to assess and monitor its contractual risk resulting from the COVID- 19 pandemic. No significant issues have been noted to-date.
3. The Company is adequately financed and is able to utilise existing cash flows within the group in the event that additional capital is needed. As at 31 December 2021, the Company had sufficient headroom above regulatory capital requirements.
4. The Company's key information technology systems and infrastructure including those outsourced have not been significantly impacted as a result of COVID-19 and continue to operate as normal.

Going concern

Management has performed an assessment to determine whether there are any material uncertainties arising due to the pandemic that could cast significant doubt on the ability of the Company and the Pershing Group to continue as a going concern. No significant issues have been noted. In reaching this conclusion, management has considered a number of factors which have been disclosed in note 1.4 Going Concern.

The Company continues to carefully monitor and mitigate the risk on an ongoing basis in order to minimise exposure while maintaining a robust balance sheet and sufficient headroom above regulatory capital requirements.

Pershing Securities Limited

Directors' report - continued

Streamlined Energy and Carbon Reporting ("SECR")

In accordance with the Companies Regulations 2018, the Company is in scope as a large unquoted entity and therefore required to report its energy use and associated greenhouse gas ('GHG') emissions resulting from energy use and employees' business travel.

However, the Company qualifies as a low energy user as defined by the regulation and accordingly has no requirement to make the detailed disclosures for its energy and carbon information.

Directors

The directors who served during the year and up to the date of the report were as follows:

	Appointed	Resigned
E Canning	-	-
L Dobson	-	-
E Gilvarry	-	-
J Jack	-	-
M McPhail (Chair)	-	-
G Towers	-	28 May 2021

Directors' indemnity provision

The articles of association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties, in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the year but have not been utilised by the directors (2020: not utilised).

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Pershing Securities Limited

Directors' report - continued

Post balance sheet events

There have been no post balance sheet events impacting the Company.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

Lee Dobson

Lee Dobson (Apr 21, 2022 17:22 GMT+1)

L Dobson
Director

Date: 21 April 2022

Pershing Securities Limited
Royal Liver Building
Pier Head
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L3 1LL

Registered number: 02474912

Pershing Securities Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: *Reduced Disclosure Framework* ("FRS 101").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, including FRS 101, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Pershing Securities Limited

Opinion

We have audited the financial statements of Pershing Securities Limited ("the Company") for the year ended 31 December 2021 which comprise of the Statement of profit and loss and other comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101: *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Independent auditors' report to the members of Pershing Securities Limited - continued

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company’s high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes and Risk and Compliance Committee minutes.
- Considering remuneration incentive schemes and performance targets for management.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that custody and stockholding fees are recorded when they don’t exist and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Assessing the design, implementation and operating effectiveness of the anti-fraud controls in the custody and stockholding fees process.
- Recalculating custody and stockholding fees over the year based on customer contracts and other customer transaction data.
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company’s regulatory and legal correspondence and discussed with management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity’s procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Independent auditors' report to the members of Pershing Securities Limited - continued

Secondly, the Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or impacts on the Company's ability to operate.

We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, data protection, anti-money laundering, market abuse regulations and financial services regulations including Client Assets and specific areas of regulatory capital and liquidity and certain aspects of company legislation and financial services legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

We have nothing to report in these respects.

Independent auditors' report to the members of Pershing Securities Limited - continued

Directors' responsibilities

As explained more fully in their statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

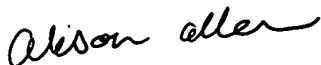
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Acts 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Alison Allen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL

23 April 2022

Pershing Securities Limited

Statement of profit and loss for the year ended 31 December 2021

		2021	2020
	Note	£000	£000
Revenue	3	104,340	103,890
Administrative expenses	4 & 5	<u>(94,765)</u>	<u>(90,818)</u>
Operating profit		9,575	13,072
Interest receivable and similar income	7	7,676	9,878
Interest payable and similar charges	8	<u>(4,539)</u>	<u>(5,417)</u>
Profit before taxation		12,712	17,533
Taxation on profit	9	<u>(4,265)</u>	<u>(4,850)</u>
Total profit for the financial year		<u><u>8,447</u></u>	<u><u>12,683</u></u>

Notes 1 to 21 are integral to these financial statements.

Pershing Securities Limited

Statement of other comprehensive income for the year ended 31 December 2021

		2021	2020
	Note	£000	£000
Total profit for the financial year		8,447	12,683
Other comprehensive income			
Items that can be reclassified to profit and loss			
Financial assets:			
Debt securities at FVOCI - net change in fair value		(1,212)	320
Net realised amounts transferred to profit and loss		(10)	(333)
Deferred tax on change in fair value of investments	15	394	-
		<u>(828)</u>	<u>(13)</u>
 Other comprehensive loss for the financial year, net of taxation		<u>(828)</u>	<u>(13)</u>
Total comprehensive income for the financial year		<u><u>7,619</u></u>	<u><u>12,670</u></u>

Notes 1 to 21 are integral to these financial statements.

All items dealt with in arriving at the Company's results for the financial year and prior year relate to continuing operations.

Pershing Securities Limited

Balance sheet at 31 December 2021

	Note	2021 £000	2020 £000
Fixed assets			
Fixed asset investments	10	-	-
Current assets			
Debtors	11	295,821	468,542
Current asset investments	12	177,661	146,267
Cash at bank and in hand	13	315,949	350,814
		<u>789,431</u>	<u>965,623</u>
Creditors: amounts falling due within one year	14	(643,718)	(827,532)
Net current assets		<u>145,713</u>	<u>138,091</u>
 Total assets less current liabilities		 145,713	 138,091
 Provisions for liabilities			
Provisions	16	<u>(84)</u>	<u>(81)</u>
Net assets		<u>145,629</u>	<u>138,010</u>
 Capital and reserves			
Called up share capital	17	113,390	113,390
Other reserves	17	(721)	107
Profit and loss account		<u>32,960</u>	<u>24,513</u>
Shareholders' funds		<u>145,629</u>	<u>138,010</u>

Notes 1 to 21 are integral to these financial statements.

These financial statements were approved by the Board of Directors and were signed on its behalf by:

Lee Dobson

Lee Dobson (Apr 21, 2022 17:22 GMT+1)

L Dobson
Director

Date: 21 April 2022

Company registered number: 02474912

Pershing Securities Limited

Statement of changes in equity for the year ended 31 December 2021

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2020	113,390	120	11,830	125,340
Total profit for the financial year	-	-	12,683	12,683
Other comprehensive loss for the financial year	-	(13)	-	(13)
Total comprehensive (loss)/income for the financial year	-	(13)	12,683	12,670
Balance at 31 December 2020	113,390	107	24,513	138,010

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2021	113,390	107	24,513	138,010
Total profit for the financial year	-	-	8,447	8,447
Other comprehensive loss for the financial year	-	(828)	-	(828)
Total comprehensive (loss)/income for the financial year	-	(828)	8,447	7,619
Balance at 31 December 2021	113,390	(721)	32,960	145,629

Notes 1 to 21 are integral to these financial statements.

Pershing Securities Limited

Notes to the financial statements for the year ended 31 December 2021

1 Accounting policies

1.1 Basis of preparation and statement of compliance with FRS 101

The Company is a private company limited by shares incorporated and domiciled in the UK and registered in England and Wales. The registered address is given on page 1.

These financial statements were prepared in accordance with FRS 101.

The Company's ultimate parent undertaking, The Bank of New York Mellon Corporation includes the Company and all its subsidiary undertakings in its consolidated financial statements. The consolidated financial statements of The Bank of New York Mellon Corporation are prepared in accordance with U.S. Generally Accepted Accounting Principles, which is considered equivalent under the requirements of Section 401 of the Companies Act 2006. The Bank of New York Mellon Corporation's consolidated financial statements are available at https://www.bnymellon.com/us/en/investor_relations/overview.html. Accordingly the Company is a *qualifying entity* for the purpose of FRS 101 disclosure exemptions.

Therefore, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Statement of cash flows and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- Disclosures in respect of compensation of key management personnel; and
- Disclosures in respect of revenue contracts with customers and significant judgements.

As the consolidated financial statements of The Bank of New York Mellon Corporation include equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.19.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

1 Accounting policies - continued

1.2 Change in accounting policy

New and amended accounting standards and interpretations

- i. New standards, interpretations and amendments effective from 1 January 2021.

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendment has had no material impact on the Company's accounting policies.

- ii. New standards, interpretations and amendments not yet effective.

A number of amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, except as stated above, the Company has not early adopted the amended standards in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Company's financial statements.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Reference to the Conceptual Framework (Amendments to IFRS 3).
- Property, Plant & Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Annual Improvements to IFRS Standards 2018–2020.
 - IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
 - IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test.
 - IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16.
 - Amendments to IAS 41 – Removal of the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.
- Disclosure of Accounting Policies (Amendments to IAS 1 & IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).
- COVID-19 – Related Rent Concessions (Amendment to IFRS 16).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- Amendments to IFRS 17 and IFRS 4, 'Insurance contracts' deferral of IFRS 9.

1.3 Measurement convention

These financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through Statement of profit and loss. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

Pershing Securities Limited

Notes to the financial statements - continued **for the year ended 31 December 2021**

1 Accounting policies - continued

1.4 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 5. In addition, the Directors' report on pages 6 to 14 includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to credit and liquidity risk.

The Company currently holds capital above regulatory capital requirements as at year end. The directors perform an annual going concern review that considers, under a stress test scenario, the Company's ability to meet its financial obligations as they fall due, for a period of at least twelve months after the date that the financial statements are signed. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

The Directors have had regard to management's assessment to determine whether there are any material uncertainties arising that could cast significant doubt on the ability of the Company to continue as a going concern. No significant issues have been noted. In reaching this conclusion, management considered:

- stress tests on reasonable plausible scenarios such as a 50% reduction in revenue over a period of 12 months from the date of signing the financial statements;
- liquidity position based on current cash resources;
- regulatory capital reverse stress tests; and
- the Company's operational resilience on existing processes and key stakeholders such as suppliers, employees, customers and its existing IT systems and infrastructure.

Based on the above assessment of the Company's financial position, liquidity and capital, the directors have concluded that the Company has adequate resources to continue in operational existence (for a period of at least twelve months after the date that the financial statements are signed). Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.5 Related party transactions

As the Company is a wholly owned indirect subsidiary of the ultimate parent company, The Bank of New York Mellon Corporation, it has taken advantage of the exemption contained in IAS 24 and has therefore not disclosed transactions with entities which form part of the Group. Balances with other members of the Group are disclosed within notes 2, 7, 8, 10, 11, 13, 14 and 18.

1.6 Foreign currency

The Company's functional and presentational currency is GBP. Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are reported net in the Statement of profit and loss within interest receivable or payable as appropriate.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Any resulting exchange differences are reported net in the Statement of profit and loss within interest receivable or payable as appropriate.

Pershing Securities Limited

Notes to the financial statements - continued **for the year ended 31 December 2021**

1 Accounting policies - continued

1.7 Revenue from contracts with customers

Revenue, which is stated net of value added tax, comprises fees and commissions receivable and arises from the provision of execution, middle office and post trade services and is accrued over the period for which these services are provided.

Fees are credited to income when the related service is performed. Commissions are credited to income on a trade date basis on all transactions executed during the year to the balance sheet date.

Where expenses have been passed on to clients without mark-up, the income has been netted against the cost. Where a mark-up has been applied, the income is included within revenue.

Income and expenses are presented on a net basis only when permitted under FRS 101, or for gains and losses arising from a group of similar transactions.

Revenue is based on terms specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Revenue is recognised when, or as, a performance obligation is satisfied by transferring control of a good or service to a customer.

A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognised by measuring the Company's progress in satisfying the performance obligation in a manner that reflects the transfer of goods and services to the customer. Revenue from a performance obligation satisfied at a point in time is recognised at the point in time the customer obtains control of the promised good or service.

The amount of revenue recognised reflects the consideration the Company expects to be entitled to in exchange for the promised goods and services. Taxes assessed by a governmental authority that are both imposed on, and concurrent with, a specific revenue producing transaction, are collected from a customer and are excluded from revenue.

1.8 Interest receivable and interest payable

Interest receivable and payable is recognised in the Statement of profit and loss and other comprehensive income using the effective interest rate method.

Interest receivable and similar income includes interest receivable on funds invested and net foreign exchange gains.

Interest payable and similar charges includes interest payable and net foreign exchange gains or losses that are recognised in the Statement of profit and loss and other comprehensive income (see note 1.6).

1.9 Taxation

Taxation on profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable or receivable in respect of previous years.

Pershing Securities Limited

Notes to the financial statements - continued **for the year ended 31 December 2021**

1 Accounting policies - continued

1.9 Taxation - continued

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.10 Non-derivative financial instruments - classification and measurement

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings and trade and other creditors.

Financial assets are measured at amortised cost if they meet both of the following conditions and are not designated as at fair value through profit and loss ("FVTPL"):

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets include trade and other debtors.

Financial assets are measured at fair value through other comprehensive income ("FVOCI") only if they meet both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application depending on the facts and circumstances at that date.

A financial liability is initially recognised at fair value and in the case of loans and borrowings and trade and other creditors, net of directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost or FVTPL. Loans and borrowings and trade and other creditors are measured at amortised cost using the effective interest rate method.

Pershing Securities Limited

Notes to the financial statements - continued **for the year ended 31 December 2021**

1 Accounting policies - continued

1.10 Non-derivative financial instruments - classification and measurement - continued

Business model assessment

Certain financial assets, for example, deposits with central banks and financial institutions, always will be held for collection of contractual cash flows as the nature of the asset means that it cannot be sold. For other financial assets, the Company makes an assessment of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. Information that is considered includes:

- the stated policies and objectives for the portfolio;
- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated; and
- the frequency and volume of historical and expected sales.

The Company generally does not hold assets for trading.

Assessment of whether cash flows are solely payments of principal and interest

‘Principal’ for these purposes is defined as the fair value of the financial asset at initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that would change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company’s claim to cash flows from specified assets; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

1.11 Classification of financial instruments issued by the Company

Ordinary shares issued by the Company are treated as equity as they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

1 Accounting policies - continued

1.12 Derecognition of financial assets and financial liabilities

Financial assets

The Company derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement where either:
- the Company has transferred substantially all the risks and rewards of the asset; or
- the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

The Company derecognises a financial liability (or, where applicable a part of a financial liability or part of a group of similar financial liabilities) when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of profit and loss.

1.13 Impairment of financial assets (including trade and other debtors)

Under IFRS 9, the Company generally recognises loss allowances at an amount equal to 12-month expected credit loss ("ECL") (Stage 1, the portion of ECL that results from default events that are possible within 12 months after the reporting date) unless there has been significant increase in credit risk since origination of the instrument, in which case ECLs are recognised on a lifetime loss basis (Stage 2). Exposures that are in default are regarded as credit impaired (Stage 3) and are also measured on a lifetime ECL basis.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date – the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- Financial assets that are credit-impaired at the reporting date – the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Financial guarantee contracts – the expected payments to reimburse the holder less any amounts that the Company expects to recover.
- Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL using the simplified approach by applying a provision matrix as a practical expedient under IFRS 9 to estimate the ECL.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery:

Pershing Securities Limited

Notes to the financial statements - continued **for the year ended 31 December 2021**

1 Accounting policies - continued

1.14 Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under FRS 101, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

1.15 Fixed asset investments

Investments in subsidiaries are carried at cost less impairment.

1.16 Current asset investments

Unquoted equity securities represent stocks of units and shares held and are carried at fair value through profit and loss. Gains and losses arising from changes in the fair value based on quoted market prices are recognised through the Statement of profit and loss and other comprehensive income.

1.17 Interest-bearing borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts in the period. Finance costs of debt are allocated over the term of the debt at the applicable rate on the carrying amount.

1.18 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.19 Accounting estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions about future conditions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Pershing Securities Limited

Notes to the financial statements - continued **for the year ended 31 December 2021**

1 Accounting policies - continued

1.19 Accounting estimates and judgements - continued

Judgements

In preparing these financial statements, management has made no significant accounting judgements.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 December 2021 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- The Company evaluates whether a provision or a contingent liability should be recognised by assessing the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimate of the expenditure required to settle the obligation. Further information is shown in notes 16 and 19. The Company assesses whether a contingent asset should be disclosed by considering the likelihood of an inflow of economic benefits.

2 Financial risk management

The Company's objectives in respect of risk management are to ensure that, at all times, it satisfies the requirement of maintaining a balance sheet demonstrating the characteristics of high liquidity and high credit quality assets, and to maintain a robust and embedded risk management framework. The Board of Directors ensures adherence with all internally set risk limits and compliance with all regulatory ratios.

Through its normal operations, the Company is exposed to a number of risks, the most significant of which are credit, market, operational, liquidity, business and regulatory risk. Management of these risks is central to the Company's activities and the ownership and management of risk is the responsibility of business management. The establishment of an independent risk management function provides the necessary challenge and support to business management in implementing and managing risk within the risk appetite approved by the Board of Directors.

Oversight of all risk limits and thresholds outlined in the Pershing Group risk appetite statement is undertaken by the Pershing Risk Committee, which reports to the Executive Committee and ultimately to the Board of Directors. Membership of the Pershing Risk Committee includes representatives from senior management in the Pershing Group and Risk Management and meets monthly, or as required. Regular reports relating to the condition of the Group and Company, including all prudential ratios, limits and other thresholds are also reviewed on a monthly basis and are fully discussed, as are any matters of a risk policy or of a compliance nature.

The Chief Risk Policy Officer of The Bank of New York Mellon Corporation formulates the necessary policies to identify, measure and monitor credit, operational and market risk. These are detailed in The Bank of New York Mellon Risk Policy Manual, to which the Company, except in the case of local regulatory differences, complies.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

2 Financial risk management - continued

Credit risk

Credit risk covers default risk from counterparties or clients for securities traded where realisation of the value of the asset is dependent on counterparties' ability to perform. Should a credit risk event occur at a client or market counterparty, the residual credit risk (i.e. post mitigation) will devolve to market risk, as the exposure in such cases is the movement in the underlying stock and foreign currency prices.

Risk mitigation is provided through the requirement of clients to deposit collateral with the Company in support of their indemnifying the Company against any losses and the Company also reserves the right to realise unpaid securities and sell assets held for the account of a defaulting underlying client.

(a) Securities settlement amounts receivable

The credit risk policy for securities settlement amounts receivable is to monitor the level of past due receivables on a daily basis and any negative mark to market exposure is measured against each client's collateral and tangible net worth. Provisions are raised where the recovery of a debt is considered to be unlikely. All clients with whom the Company deals are subject to detailed credit analysis and a high level assessment of market counterparties is carried out prior to allowing clients to trade.

The aging of securities settlement amounts receivable that were not impaired at the balance sheet date was as follows:

	2021	2020
	£000	£000
Neither past due nor impaired	101,594	145,913
Past due up to one month	116,854	237,362
Past due from one month to three months	13,938	4,790
Past due from three months to one year	764	1,251
More than one year past due	76	(34)
	<u>233,226</u>	<u>389,282</u>

The concentration of credit risk for securities settlement amounts receivable at the balance sheet date by geographical region was predominantly European.

The concentration of credit risk for securities settlement amounts receivable at the balance sheet date by type of customer was:

	2021	2020
	£000	£000
Clients	152,331	270,794
Market counterparties	80,895	118,488
	<u>233,226</u>	<u>389,282</u>

(b) Cash and balances at bank

The credit risk policy for cash and balances at bank is to maintain bank accounts with banks having an average rating of A-/A3 from external rating agencies.

Pershing Securities Limited

Notes to the financial statements - continued

for the year ended 31 December 2021

2 Financial risk management - continued

Credit risk - continued

The concentration of credit risk for cash and cash equivalents at the balance sheet date by geographical region was:

	2021	2020
	£000	£000
United Kingdom	68,860	51,056
United States	39,153	36,568
Europe	115,197	199,270
Others	92,739	63,920
	<u>315,949</u>	<u>350,814</u>

(c) Loans to third parties

The credit risk policy for loans to third parties is to lend against a portfolio of fully paid for liquid securities. Conservative loan to value and concentration parameters are monitored daily to ensure that breaches are remedied in a timely manner and there has therefore been no impairment of this loan portfolio. Most loans to underlying investors are covered by an indemnity from the Pershing client introducing the account. All loans to third parties at the balance sheet date were neither past due nor impaired and all are based in Europe. Furthermore, all loans to third parties were to retail customers.

Market risk

Market risk is the risk of loss due to adverse changes in the financial markets. Besides the market risk resulting from credit risk, the main source of market risk arises from foreign exchange exposure in respect of revenue, expenses and borrowings, and interest rate exposure on cash balances and borrowings.

BNY Mellon hedges foreign exchange exposure at the consolidated level and therefore subsidiaries are not required to hedge independently. There is a limited amount of market risk resulting from collateralised lending against investors' portfolios of fully paid for eligible securities which is mitigated by conservative loan to value limits. To the extent that market risk arises from a credit risk event, mitigation is provided through the requirement of clients to deposit collateral with the Company in support of their indemnity as mentioned above.

The Company does not engage in proprietary trading. It does however, continue to hold a minority shareholding in Euroclear plc, and a portfolio of UK and US Government debt securities for the purpose of managing its liquid asset buffer. It does not hold a significant proprietary foreign exchange trading position.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

2 Financial risk management - continued

Market risk - continued

(a) Foreign currency risk

The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December. The Company takes small amounts of proprietary foreign exchange (FX) trading positions.

The Company's exposure to foreign currency risk is shown below:

	Sterling	Euro	US Dollar	Other	Total
	£000	£000	£000	£000	£000
2021					
Current assets	256,043	174,535	275,146	83,707	789,431
Current liabilities	(118,416)	(163,959)	(277,122)	(84,221)	(643,718)
Total exposure	<u>137,627</u>	<u>10,576</u>	<u>(1,976)</u>	<u>(514)</u>	<u>145,713</u>
2020					
Current assets	328,642	351,955	268,301	16,725	965,623
Current liabilities	(196,743)	(343,769)	(270,063)	(16,957)	(827,532)
Total exposure	<u>131,899</u>	<u>8,186</u>	<u>(1,762)</u>	<u>(232)</u>	<u>138,091</u>

A 5% weakening of the following currencies against the pound sterling at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

A 5% strengthening of the currencies would have an equal but opposite effect, on the basis that all other variables remain constant.

	Equity	Profit or loss	Equity	Profit or loss
	2021	2021	2020	2020
	£000	£000	£000	£000
Euro	529	529	409	409
US Dollar	99	99	88	88

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

2 Financial risk management - continued

Market risk - continued

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

Management have concluded that the impact of interest rate risk on the Company is minimal due to the short-term duration of interest bearing instruments as evidenced in the tables below.

The profile of the Company's interest-bearing financial instruments is as follows:

	2021 £000	2020 £000
Fixed-rate instruments		
Financial assets - UK and US Government securities	164,820	133,420
Variable-rate instruments		
Financial assets	558,769	776,501
Financial liabilities	(553,837)	(643,795)

The interest rate profile of the Company's interest-bearing financial instruments by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date is as follows:

	Carrying amount £000	Less than 3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	More than 5 years £000
2021						
Assets						
Cash and cash equivalents	315,949	315,949	-	-	-	-
Current asset investments	164,820	-	18,457	14,942	131,421	-
loans to third parties	10,664	10,664	-	-	-	-
Trade receivables	229,456	229,456	-	-	-	-
Amounts due from group undertakings	2,700	2,700	-	-	-	-
	<u>723,589</u>	<u>558,769</u>	<u>18,457</u>	<u>14,942</u>	<u>131,421</u>	<u>-</u>
Liabilities						
Bank loans and overdrafts	(57,961)	(57,961)	-	-	-	-
Trade payables	(138,684)	(138,684)	-	-	-	-
Amounts owed to Group undertakings	(357,192)	(12,597)	(344,595)	-	-	-
	<u>(553,837)</u>	<u>(209,242)</u>	<u>(344,595)</u>	<u>-</u>	<u>-</u>	<u>-</u>

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

2 Financial risk management - continued

Market risk - continued

(b) Interest rate risk - continued

2020	Carrying amount £000	Less than 3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	More than 5 years £000
Assets						
Cash and cash equivalents	350,814	350,814	-	-	-	-
Current asset investments	133,420	-	51,515	33,861	48,044	-
loans to third parties	39,069	39,069	-	-	-	-
Trade receivables	384,918	384,918	-	-	-	-
Amounts owed by Group companies	1,700	1,700	-	-	-	-
	<u>909,921</u>	<u>776,501</u>	<u>51,515</u>	<u>33,861</u>	<u>48,044</u>	<u>-</u>
Liabilities						
Bank loans and overdrafts	(29,621)	(29,621)	-	-	-	-
Trade payables	(295,696)	(295,696)	-	-	-	-
Amounts owed to Group undertakings	(318,478)	(13,468)	(305,010)	-	-	-
	<u>(643,795)</u>	<u>(338,785)</u>	<u>(305,010)</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Company has performed sensitivity analysis on the above position and determined that a 1% increase in interest rates at the reporting dates would increase annual profits before tax for the Company by £474,000 (2020: £1,327,000). However in the current low interest environment, further declines in interest rates will not have a significant impact on the results of the Company.

Liquidity risk

Liquidity risk is the risk that a company, although balance sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

The Company is subject to the Group Liquidity Policy. It is the responsibility of all Group companies to maintain liquid resources that are adequate in both amounts and quality. The Company has adopted an internal liquidity policy (based on the Group policy) which has been approved by the Asset and Liability Committee and the Board of Directors and outlines the liquidity framework, annual stress testing programme and liquidity risk tolerance levels. Monthly liquidity analysis is carried out by the Finance function and reported to the Pershing Risk Committee and Asset and Liability Committee.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

2 Financial risk management - continued

Liquidity risk - continued

A maturity analysis of financial liabilities and assets, including estimated interest payments and excluding the effect of netting agreements is shown below:

	Contractual cash flows						
	Carrying amount	Gross nominal (outflow)/ inflow	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
2021	£000	£000	£000	£000	£000	£000	£000
Non-derivative liabilities							
Bank loans and overdrafts	(57,961)	(57,971)	(57,971)	-	-	-	-
Securities settlement amounts payable	(162,124)	(162,126)	(162,126)	-	-	-	-
Amounts owed to Group undertakings	(357,708)	(358,301)	(13,675)	(344,626)	-	-	-
Accruals & deferred income	(27,140)	(27,140)	(27,140)	-	-	-	-
Other creditors	(35,050)	(35,050)	(35,035)	(15)	-	-	-
Deferred tax liability	(3,735)	(3,735)	-	-	(3,735)	-	-
Provisions	(84)	(84)	-	-	-	(84)	-
	<u>(643,802)</u>	<u>(644,407)</u>	<u>(295,947)</u>	<u>(344,641)</u>	<u>(3,735)</u>	<u>(84)</u>	<u>-</u>
Non-derivative assets							
Bank, cash and cash equivalents	315,949	315,975	315,975	-	-	-	-
Current asset investments	177,661	178,433	12,871	18,576	15,291	131,695	-
Securities settlement amounts receivable	233,226	233,230	233,230	-	-	-	-
Amounts owed by Group undertakings	6,909	6,911	6,911	-	-	-	-
Other debtors	17,997	17,997	17,997	-	-	-	-
Prepayments and accrued income	18,180	18,180	13,917	1,599	2,664	-	-
Other financial assets	19,509	19,509	19,509	-	-	-	-
	<u>789,431</u>	<u>790,235</u>	<u>620,410</u>	<u>20,175</u>	<u>17,955</u>	<u>131,695</u>	<u>-</u>

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

2 Financial risk management - continued

Liquidity risk - continued

Contractual cash flows

	Carrying amount	Gross nominal (outflow)/ inflow	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
2020	£000	£000	£000	£000	£000	£000	£000
Non-derivative liabilities							
Bank loans and overdrafts	(29,621)	(29,626)	(29,626)	-	-	-	-
Securities settlement amounts payable	(418,683)	(418,687)	(418,687)	-	-	-	-
Amounts owed to Group undertakings	(318,806)	(319,329)	(14,291)	(305,038)	-	-	-
Accruals & deferred income	(31,935)	(31,935)	(31,935)	-	-	-	-
Other creditors	(25,100)	(25,100)	(25,100)	-	-	-	-
Deferred tax liability	(3,387)	(3,387)	(40)	-	(3,347)	-	-
Provisions	(81)	(81)	(81)	-	-	-	-
	<u>(827,613)</u>	<u>(828,145)</u>	<u>(519,760)</u>	<u>(305,038)</u>	<u>(3,347)</u>	<u>-</u>	<u>-</u>
Non-derivative assets							
Bank, cash and cash equivalents	350,814	350,843	350,843	-	-	-	-
Current asset investments	146,267	149,071	13,096	52,727	34,656	48,592	-
Securities settlement amounts receivable	389,282	389,288	389,288	-	-	-	-
Amounts owed by Group undertakings	2,831	2,832	2,832	-	-	-	-
Other debtors	49,254	49,257	49,254	-	3	-	-
Prepayments and accrued income	12,174	12,174	12,174	-	-	-	-
Other financial assets	15,001	15,001	15,001	-	-	-	-
	<u>965,623</u>	<u>968,466</u>	<u>832,488</u>	<u>52,727</u>	<u>34,659</u>	<u>48,592</u>	<u>-</u>

Pershing Securities Limited

Notes to the financial statements - continued **for the year ended 31 December 2021**

3 Revenue from contracts with customers

Nature of services and revenue recognition

Fee revenue in Investment Services is primarily variable, based on levels of assets under custody or administration ("AUC/A") and the level of client driven transactions, as specified in fee schedules.

Investment Services fees are based primarily on the market value of AUC/A, the volume of transactions and fees for other services. Certain fees based on the market value of assets are calculated in arrears on a monthly or quarterly basis.

Most services within the Investment Services business are provided over time. Revenue for these services is recognised using the time elapsed method, equal to the expected invoice amount, which typically represents the value provided to the customer for our performance completed to date.

Trade execution and clearing services are delivered at a point in time, based on customer actions. Revenue for trade execution and clearing services is recognised on trade date, which is consistent with the time that the service was provided. Customers are generally billed for services on a monthly or quarterly basis.

Contract balances

The Company's customers are billed based on fee schedules that are agreed upon in each customer contract. The receivables from customers were £16,399,000 at 1 January 2020 and £16,528,000 at 31 December 2021. The ECL on accounts receivable is calculated as per accounting policy Note 1.12 and adjustments to the allowance are recorded in administrative expenses in the Statement of profit and loss. Receivables from customers are included in Debtors on the balance sheet.

Contract assets represent accrued revenues that have not yet been billed to the customers due to contingent factors other than the passage of time. The Company had £nil contract assets as at 31 December 2021 (2020: £nil).

Receivables from customers are included in other assets and prepayments and accrued income on the balance sheet.

Contract liabilities represent payments received in advance of providing services under certain contracts and were £nil as at 31 December 2021 (2020: £nil).

Any changes in the balances of contract assets and contract liabilities would result from changes arising from business combinations, impairment of a contract asset and changes in the timeframe for a right to consideration becoming unconditional or a performance obligation to be satisfied. No such instances were noted.

Contract costs

Contract costs represent either costs which are capitalised relating to incremental costs for obtaining contracts, or costs incurred for fulfilling contract obligations when they relate directly to an existing contract or specific anticipated contract, generate or enhance resources that will be used to fulfil performance obligations and are recoverable. The Company had £nil contract costs as at 31 December 2021 (2020: £nil).

Unsatisfied performance obligations

The Company does not have any unsatisfied performance obligations.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

3 Revenue from contracts with customers - continued

By activity

The Company's business comprises of a single segment: the provision of execution, middle office and post trade services, sourced from the United Kingdom, to global intermediary and investor clients.

	2021	2020
	£000	£000
Clearing and settlement revenue	98,000	97,731
Net foreign exchange trading profit	6,340	6,159
	<u>104,340</u>	<u>103,890</u>

4 Administrative expenses and auditor's remuneration

Profit/(loss) before taxation is stated after charging:

Auditor's remuneration:

	2021	2020
	£000	£000
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of these financial statements pursuant to legislation	114	70
Other audit related assurance services	394	266
	<u>508</u>	<u>336</u>

5 Staff numbers and costs

The Company had no employees during the year ended 31 December 2021 (2020: nil). All operating functions were performed by Pershing Limited, the Company's immediate parent, which acted as settlement agent for the Company and made charges to the Company for these services. All Pershing Limited staff are based in the United Kingdom.

6 Directors' emoluments

The aggregate amount of remuneration paid to or receivable by directors in respect of qualifying services is disclosed below. Qualifying services include services as a director of the Company, as a director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings. The amounts are disclosed irrespective of which Group company actually makes the payment to the directors.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

6 Directors' emoluments - continued

	2021	2020
	£000	£000
Directors' emoluments	583	629
Amounts receivable under long-term incentive schemes	144	78
Company contributions to money purchase pension plans	1	3
	<u>728</u>	<u>710</u>

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £293,000 (2020: £308,000) and there were no Company pension contributions made on their behalf (2020: £nil). During the year, the highest paid director did not exercise any share options but received shares under a long-term incentive scheme.

	Number of Directors	
	2021	2020
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2
The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was	4	3

7 Interest receivable and similar income

	2021	2020
	£000	£000
Receivable on loans to third parties	331	450
Receivable from external third parties on bank deposits	1,478	700
Receivable from Group undertakings	44	49
Late settlement interest and similar income	5,030	6,115
Receivable from current asset investments	728	2,227
Receivable from investments in debt securities	65	337
Total interest receivable and similar income	<u>7,676</u>	<u>9,878</u>

8 Interest payable and similar charges

	2021	2020
	£000	£000
Net foreign exchange loss	457	455
Payables on loans from third parties	1,227	987
Payable to Group undertakings	2,855	3,975
Total interest payable and similar charges	<u>4,539</u>	<u>5,417</u>

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

9 Taxation

Recognised in the statement of profit and loss and other comprehensive income

	2021 £000	2020 £000
<i>UK corporation tax</i>		
Current tax on profit for the period	3,432	3,994
	3,432	3,994
<i>Deferred tax (see note 15)</i>		
Current year	(1)	739
Effect of changes in tax rates	743	193
FX relating Euroclear Tax Liability	91	(76)
Total deferred tax	833	856
Total tax expense	4,265	4,850

Factors affecting total tax charge for the current period

	2021 £000	2020 £000
Total profit for the financial year	8,447	12,683
Total tax expense	4,265	4,850
Profit excluding taxation	12,712	17,533
Tax using the UK corporation tax rate of 19.00% (2020: 19.00%)	2,415	3,331
Expenses not deductible	(1)	-
Tax rate changes	743	193
Euroclear deferred tax fx movement	92	-
FX relating Euroclear Tax Liability	(1)	(76)
Bank surcharges	1,017	1,402
Total tax expense	4,265	4,850

The increase in the UK Corporation tax rate from 19% to 25% (effective April 2023) was enacted on 10 June 2021. This will increase the Company's future tax charge accordingly. The company is also subject to the banking surcharge of 8%. The deferred tax position as at 31 December 2021 has been calculated based on these rates. Subsequent to year end, further amendments were made to the Banking Surcharge reducing the rate from 8% to 3% (effective April 2023), enacted 24 February 2022. If this change had been substantively enacted at the balance sheet date this would have reduced the deferred tax asset at 31 December 2021 by £619,697.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

10 Fixed asset investments

Subsidiaries

Fixed asset investments of £2 (2020: £2) are carried at cost less any provision for permanent diminution in value and comprise holdings in subsidiaries as disclosed below:

Name of subsidiary	Registered office	Principal activity	Class of shares held	Ownership 2021	Ownership 2020
Pershing Nominees Limited	Royal Liver Building, Pier Head, Liverpool L3 1LL	Nominee company	£1 ordinary shares	100%	100%
Northern and Midland Nominees Limited	Royal Liver Building, Pier Head, Liverpool L3 1LL	Nominee company	£1 ordinary shares	100%	100%

11 Debtors

	2021 £000	2020 £000
Securities settlement amounts receivable		
Third parties	199,928	370,881
Group undertakings	33,298	18,401
Amounts due from Group undertakings	6,909	2,831
Other debtors	17,997	49,254
Prepayments and accrued income	18,180	12,174
Other financial assets	19,509	15,001
	<u>295,821</u>	<u>468,542</u>
Due within one year	<u>295,821</u>	<u>468,542</u>

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

12 Current asset investments

	2021 £000	2020 £000
Current asset investments - debt securities		
At 1 January	133,420	131,603
Additions	224,907	264,033
Disposals	(191,371)	(259,589)
Unrealised (loss)/gain & amortisation	(2,136)	(2,627)
Total current asset investments - debt securities	<u>164,820</u>	<u>133,420</u>
Current asset investments - unquoted equity securities		
At 1 January	12,847	10,110
Unrealised (loss)/gain	(6)	2,737
Total current asset investments - unquoted equity securities	<u>12,841</u>	<u>12,847</u>
Total current asset investments	<u><u>177,661</u></u>	<u><u>146,267</u></u>

The debt securities are UK and US Government debt securities, held as liquid asset buffer to comply with the FCA liquidity rules. Level 1 inputs have been applied to arrive at fair value.

The unquoted equity securities comprise a minority shareholding in Euroclear Holding SA/NV which is held at fair value subject to impairment review. For unquoted equity securities the fair value is estimated using appropriate valuation techniques which rely on unobservable inputs and therefore require some degree of estimation to calculate a fair value (Level 3 inputs). If the adjusted net asset value changed by 1% the value of the unquoted equity securities would change by £128,000 (2020: £128,000).

13 Cash at bank and in hand

	2021 £000	2020 £000
Cash at bank and in hand	<u>315,949</u>	<u>350,814</u>

At 31 December 2021 the Company held client money of £2,611,422,000 (2020: £2,723,139,000). This amount, together with the corresponding obligation to clients, is not included in the Company's Balance sheet.

Cash at bank and in hand included £2,278,000 (2020: £2,003,000) of funds on deposit with a UK regulated banking entity within the Group.

The Company is exposed to foreign exchange risk between the date of recognition and settlement of foreign currency income and expenses. To mitigate this, the Company maintains foreign currency cash balances to offset the net currency position. This activity can result in foreign currency overdrafts that mitigate the risk of foreign currency receivables.

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

14 Creditors: amounts falling due within one year

	2021	2020
	£000	£000
Bank loans and overdrafts	57,961	29,621
Securities settlement amounts payable		
Third parties	155,823	412,212
Group undertakings	6,301	6,471
Amounts due to Group undertakings	357,708	318,806
Accruals and deferred income	27,140	31,935
Other creditors	35,050	25,100
Deferred tax liability	3,735	3,387
	<u>643,718</u>	<u>827,532</u>

Included in amounts owed to Group undertakings is £344,595,000 (2020: £305,010,000) of inter-Group borrowings at a variable rate and repayable within 12 months of the balance sheet date.

15 Deferred tax liability

Movement in deferred tax during the year

	2021	2020
	£000	£000
At 1 January	3,387	2,455
Deferred tax debited to profit and loss for the period	742	932
Deferred tax charge to OCI for the period	(394)	-
At 31 December	<u>3,735</u>	<u>3,387</u>

The major components of deferred tax are as follows:

Recognised deferred tax liability

Current asset investments	<u>3,735</u>	<u>3,387</u>
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Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

16 Provisions

An analysis of movements in provisions during the year is as follows:

	2021	2020
	£000	£000
Client related claims		
At 1 January	81	54
Provided for during the year	74	292
Amounts utilised in the year	(71)	(265)
At 31 December	84	81

17 Capital and reserves

<i>Share capital</i>	2021	2020
	£000	£000
Allotted, called up and fully paid		
113,390,000 ordinary shares of £1 each	113,390	113,390

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Other reserves

Other reserves comprise the fair value reserve for current asset investments measured at FVOCI.

18 Offsetting financial assets and financial liabilities

Group netting

Amounts due to and from certain individual Group companies who have signed a Master Netting Agreement are netted in the balance sheet as settlement is made net.

End investor netting

Where the Company has the obligation to settle transactions on behalf of a client, the Company records the settlement obligations on its Balance sheet. In cases where an end investor of our client has both a receivable and a payable for trade settlements, the Company's client agreements contain the explicit right to offset such balances. Therefore these are recorded net.

Commission payable offset

In cases where the Company's client earnings are collected and recorded as a payable on the Company's Balance sheet until paid, the Company deducts its fees from these amounts, therefore the payable is recorded net of this receivable. The extent of this netting can be seen below:

Pershing Securities Limited

Notes to the financial statements - continued for the year ended 31 December 2021

18 Offsetting financial assets and financial liabilities - continued

Commission payable offset - continued

	2021			2020		
	Gross amounts £000	Amounts offset £000	Net amounts £000	Gross amounts £000	Amounts offset £000	Net amounts £000
Amounts owed by Group undertakings	8,410	1,501	6,909	4,850	2,019	2,831
Amounts owed to Group undertakings	359,209	1,501	357,708	320,825	2,019	318,806
End investor netting	178,734	30,110	148,624	376,268	109,635	266,633
Commission payable	30,133	5,425	24,708	35,482	7,199	28,283
Commission receivable	12,307	5,425	6,882	17,115	7,199	9,916

19 Contingencies

The Company did not have any contingencies at the year end.

20 Transactions involving directors, officers and others

At 31 December 2021 there were no loans or other transactions made to directors, officers or other related parties of the Company (2020: £nil).

21 Ultimate parent company and parent company of larger group

The immediate parent undertaking of the Company is Pershing Limited, a company registered in England and Wales. The registered address of Pershing Limited is Royal Liver Building, Pier Head, Liverpool L3 1LL.

The largest and smallest Group in which the results of the Company are consolidated is that headed by The Bank of New York Mellon Corporation, incorporated in the United States of America.

The ultimate parent company as at 31 December 2021 was The Bank of New York Mellon Corporation, incorporated in the United States of America. The consolidated accounts of the ultimate parent company may be obtained from its registered address.

The Secretary
The Bank of New York Mellon Corporation
240 Greenwich Street
New York, NY
10286
USA.