

Santander ISA Managers Limited (SIM) – Annual MIFIDPRU public disclosure Report: 31 March 2022

The terms 'we', 'us', 'SIM' and 'our' are used in this document to refer to Santander ISA Managers Limited.

Introduction

Santander ISA Managers Limited (**SIM**) is a wholly owned subsidiary of Santander UK plc. The primary function of SIM is to distribute a range of investment products to UK retail clients. SIM is authorised by HM Revenue & Customs as a stocks and shares ISA Manager. SIM is regulated by the Financial Conduct Authority (**FCA**), number 171448, and has its registered office in 287 St Vincent Street, Glasgow, G2 5NB.

In January 2022 the FCA introduced the Investment Firms Prudential Regime (**IFPR**), a new regime for UK firms authorised under the Markets in Financial Instruments Directive (MiFID). The regulation that formalises this regime is called **MIFIDPRU**.

MIFIDPRU seeks to cover the potential harm posed by investment firms to their clients and the markets they operate in. These rules are publicly available and can be found at handbook.fca.org.uk/handbook/MIFIDPRU

This document sets out certain disclosures relating to our business that we're required to make publicly available under this new regime.

The disclosures in this document are solely in respect of SIM

Content of the disclosures

This document covers the following key areas:

1. Basis of disclosures – important information about how these disclosures have been formed;
2. Risk management – how SIM manages risks within its business;
3. Governance arrangements;
4. SIM's Own Funds held – the levels of Own Funds in SIM with a full breakdown, including a reconciliation with the SIM reports and accounts; and
5. Own Funds regulatory requirements – the levels of Own Funds in SIM and the regulatory thresholds.

1. Basis of disclosure

This document sets out the disclosures that we're required to make publicly available under MIFIDPRU. The disclosures haven't been audited and don't form part of the annual audited financial statements and they shouldn't be relied upon in making any judgment about the financial position of SIM.

These disclosures are calculated as at 31 March 2022 in accordance with MIFIDPRU. However, all information related to SIM's Annual Report and Accounts are as at 31 December 2021, which is SIM's financial year end.

These disclosures are made on an annual basis as soon as practical after the publication of SIM's Annual Report and Accounts. They may be made more frequently where appropriate, for example, in the event of a major change to our business model.

2. Risk management

The principal activities of SIM are to act as the platform service provider and stocks & shares ISA manager for investments on the Santander Investment Hub and investments advised through the Santander UK plc financial planning service. SIM is a private limited company regulated by the Financial Conduct Authority (FCA). The Investment Hub is an online platform that allows customers the ability to invest in a wide variety of investments and manage those investments online. All advised business from the Santander UK plc Financial Planning service is serviced on the Investment Hub, including investments through both the financial planning and Santander Private Banking divisions.

Santander UK plc maintain an Internal Risk Management & Control System which is a set of tools, documents and processes that support the management and control of risk. The Internal Risk Management & Control System includes risk descriptors, and appetites i.e. how much risk the company is willing to take, as well as a series of policies and procedures to support the Risk Framework.

In general SIM will adopt the Santander UK plc Risk Framework. The approach to Santander UK plc Risk Framework can be found at santander.co.uk/about-santander/investor-relations/santander-uk-group-holdings-plc

This includes descriptions of how Santander UK plc assess the adequacy of their Risk Frameworks.

Below we describe the potential for harm associated with SIM's business strategy. SIM's business strategy is to enhance and expand the range of services offered on the Investment Hub, increasing customer numbers through both the direct digital channel and through Santander UK advised distribution. A programme has been undertaken to migrate all historic investment accounts to the Investment Hub to ensure an enhanced customer journey through the use of a single investment platform with digital access for all customers. SIM aims to grow customer loyalty by providing an outstanding customer experience, to further simplify and digitise the business for improved efficiency and to embed sustainability across the business.

As a result of its normal business activities, SIM is exposed to a variety of risks, the most significant of which are operational risk, credit risk, market risk and liquidity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes regulatory, legal and compliance risk. Market risk is the potential for loss of income or a decrease in the value of net assets caused by movements in the levels and prices of financial instruments. Credit risk is the risk that counterparties will not meet their financial obligations.

Risks can also arise to customers through failures in incident management, inadequate complaints servicing, poor service through forecasting failure in customer contact centres and as loss or severe restriction in critical servicing.

Strategic and Business Risk is managed at the Santander UK Group level, with the focus on maintaining a low to medium risk appetite; review of risks to ensure SIM stays within its risk appetite range; mitigation of risk through having a clear and consistent strategy and an effective planning process; and finally through risk monitoring and management. All material risk exposures, either on-balance sheet or off-balance sheet are Identified, Assessed, Managed and Reported in a timely and accurate manner. These key processes are aligned to the Banco Santander S.A. set of processes within the Group Risk Framework.

SIM uses the 'three lines of defence' model to manage risk. This model is widely used in the banking industry and has a clear set of principles to put in place a cohesive operating model across an organisation. It does this by separating risk management, risk control and risk assurance:

1. Line 1: Business Units and Business Support Units identify, assess and manage the risks which originate and exist in their area, within our Risk Appetite.
2. Line 2: Risk Control Units are independent monitoring and control functions. They are under the executive responsibility of the Chief Executive Officer, but responsible to the Chief Risk Officer, for overseeing the first line of defence. They make sure Business Units and Business Support Units manage risks effectively and within our Risk Appetite. The Risk Control Units are: Financial Crime; Conduct & Compliance, responsible for controlling reputational and conduct & regulatory risks; Legal; and Risk, responsible for controlling credit, market, liquidity, capital, pension, strategic and business, operational and model risks.
3. Line 3: Internal Audit is an independent corporate function. It gives assurance on the design and effectiveness of our risk management and control processes.

Although each of the three lines of defence has a separate organisational structure and a degree of independence, they should collaborate where necessary to ensure the objectives of the business are met.

A comprehensive Internal Risk Management & Control System is in place to enable effective risk management and control in accordance with the agreed overriding principles, minimum standards, risk appetite, policies, mandates and delegated authorities.

Further information can be found within the Santander UK Group plc Annual Report.

Below are some specific risks that SIM is exposed to, broken down into those that relate to SIM's own funds requirement, concentration risk and liquidity risk.

Own Funds' risks

Own Funds are a measure of the firms' financial resources, after allowing for its liabilities (i.e. the amount that it owes to others). The level of Own Funds is important as they must meet certain threshold levels set out in the regulations and the FCA's rules. These threshold levels reflect, amongst other factors, the potential harm that might be incurred by a firm's clients and the markets they operate in, for example significant market downturns or defaults by key counterparties.

SIM's Own Funds assessments look at the following risks, although this list is not exhaustive:

- Supplier Management – SIM engage with a number of third-party suppliers;
- Operational & Regulatory Control;
- The FCA Client Assets Sourcebook (**CASS**) Framework;
- Data Management;

- Fraud and financial crime;
- Complaints;
- Operational Resilience & Business Continuity;
- Capital & Liquidity Risk;
- Concentration Risk
- Legal Risk; and
- Interest Rate Risk.

The chance of a risk emerging, and the financial impact if it materialises, are reflected in the assessment of the Own Funds. This assessment determines the minimum amount of Own Funds SIM must hold at all times. These assessments are refreshed as and when risks alter, or new risks emerge given business activities.

The level of SIM's Own Funds held can be found in the 'SIM's Own Funds held' section below.

Concentration risk

High exposure to certain counterparties, business lines or channels can result in an increased risk to SIM. The concentration risks identified for SIM are:

- **Fund concentration:** Where a small number of funds make up the majority of SIM's Investment Hub platform, a significant fall in the value of these funds could give rise to a substantial fall in the fees received by SIM. We manage this risk through regular monitoring of fund performance.
- **SIM client money concentration:** SIM places its client money (i.e. money held on behalf of retail clients) with third-party banks, as well as Santander UK plc. SIM accepts that it does have concentrations of exposures to banking counterparties which could give rise to an increased level of risk. However, SIM attempts to minimise this risk by maintaining a diverse portfolio of client relationships and meeting the CASS rules at all times.
- **SIM cash concentration:** All SIM's own cash is placed with Santander UK plc. In the event of a default by Santander UK plc, SIM would rank amongst other creditors in respect of the amount deposited. In SIM's assessment, Santander UK plc have sufficient liquidity held aside for these exposures.
- **Customer concentration:** A dominant customer could leave the SIM Investment Hub platform causing a significant drop off in the Platform Service Fee. This risk is considered extremely slight as the largest customer holding is significantly less than 1% of the overall customer assets held.

Liquidity risk

This is the risk that SIM, although meeting the required level of own funds and liquid assets, either doesn't have sufficient resources available to allow it to meet its obligations when they're due or can only secure them at an excessive cost.

SIM is exposed to liquidity risk in the event of sharp downturns in the value of the assets under custody, where SIM's recurring revenue is insufficient to meet SIM's overheads. SIM manages this risk through regular monitoring of the liquid assets held against the thresholds. In addition, SIM assesses the liquidity position in stressed conditions over future years to ensure it maintains sufficient liquid assets.

SIM is also exposed to liquidity risk in respect of payment obligations to its clients and product providers and the settlement timing of corresponding cash inflows and outflows. Therefore, liquidity risk arises primarily due to the requirement to fund client money and client asset shortfalls under the CASS rules. In addition, SIM has an arrangement in place relating to the settlement of customer trades to mitigate the issues with delayed settlements. SIM holds all client money with several UK banks. SIM is exposed to liquidity risks in respect of these holdings, however SIM manages these risks by diversifying the client money across these banks.

SIM's own assets are predominantly liquid assets, that is cash held with a bank – in our case Santander UK plc.

3. Governance arrangements

The SIM Board recognises that risks will be present throughout the activities that SIM undertakes. The SIM Board meets four times a year and is responsible for ensuring that SIM has a suitably robust Governance and Risk Management Framework in place to make sure that risks are adequately identified, assessed, and mitigated. This is ultimately to ensure that clients' and SIM's own assets are suitably protected.

Additionally, there is a SIM Risk Meeting which reports directly to the SIM Board.

Each has a Terms of Reference clearly stating its responsibilities, membership, and escalation procedures.

The SIM Board

The Santander ISA Managers Limited ('SIM') Board is responsible for promoting the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. It has overall responsibility for oversight of the business and affairs of SIM, the establishment and periodic assessment of the implementation of SIM's strategy, establishment and oversight of SIM's risk strategy, monitoring of regulated capital as applicable, and the maintenance of high standards of corporate governance.

The Board monitors and oversees SIM's operations, ensuring competent and prudent management, sound planning, appropriate policies for the provision of customer services, proper procedures for the maintenance of adequate accounting and other records and systems of internal control, and compliance with statutory and regulatory obligations.

The SIM Board is the 'responsible body' under the Internal Capital and Risk Assessment (**ICARA**) process. The SIM Board will perform a regular review of the adequacy of SIM's ICARA process and submit the ICARA assessment questionnaire to the FCA. The SIM Board is also required to review and approve the content of the SIM's ICARA document, and in particular the underlying key assumptions.

The table below details the directors on the SIM Board along with the number of directorships held by each person across both the wider Santander UK plc business and outside of Santander UK plc as at 31 March 2022.

Name	Number of directorship (executive and non-executive) held by each member of SIM including Santander UK plc
James Dunne	3
Stephen Affleck	59
Alexia Kilby	2
Stewart Livingston	2

The SIM Risk Meeting

The monthly SIM Risk Meeting is responsible for ensuring the effective management of risks to enable SIM to achieve its business objectives in accordance with Santander Risk Frameworks, policies and standards.

Risk types will include, but not be limited to, operational (financial, customer, regulatory, reputational), strategic and conduct. This meeting is also supported by the SIM CASS Governance Meeting which covers risks specifically related to CASS, including those relating to custody of client assets and client money.

This Risk Meeting is not a formal risk committee. SIM does not, and is not required to, maintain a risk committee on the basis that the thresholds relating to on-balance sheet and off-balance sheet items in MIFIDPRU 7.1.4R are not exceeded.

Promoting Inclusion and diversity

SIM adopts the Santander UK plc framework for inclusion and diversity. Santander has diversity and inclusion at the top of its agenda to attract, train and retain the best employees; attain long-term and sustainable results; and contribute to a better future for everyone. Group-wide programmes and initiatives have earned us recognition from Euromoney magazine as the world's best bank for diversity and inclusion in 2020, as well as placement among the 10 leading companies in the world by the 2021 Bloomberg Gender-Equality Index.

The SIM Board aims for a composition that is balanced and diverse in terms of experience, nationality, ethnicity, age and gender of the individual members. The SIM Board recognises that diversity, and especially diversity of thought, can bring insights and behaviours that may make a valuable contribution to its effectiveness.

4. SIM's Own Funds held

Own Funds can be made up of different categories of capital called: common equity tier 1 capital, additional tier 1 capital, and tier 2 capital. The items that fall into each of these categories can be seen in Table 1 below.

Under MIFIDPRU, SIM is required to disclose:

1. a reconciliation of common equity tier 1 items, additional tier 1 items, tier 2 items, and the applicable filters and deductions applied in order to calculate the Own Funds of the firm – see Table 1 below;
2. a reconciliation of 1 (above) with the capital in the balance sheet in the audited financial statements of the firm – see Table 2; and
3. a description of the main features of the common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments issued by the firm – see Table 3.

These are presented in the three tables below based on the SIM Annual Reports and Accounts as at 31 December 2021.

Table 1: Composition of regulatory Own Funds			
	Item	Amount (GBP Thousands)	Source based on reference numbers/ letters of the balance sheet in the audited financial statement
1	OWN FUNDS	37,855	n/a – sum of items below
2	TIER 1 CAPITAL	37,855	Page 10, total equity
3	COMMON EQUITY TIER 1 CAPITAL	0	
4	Fully paid-up capital instruments	5,000	Page 10 item 13, share capital
5	Share premium	0	
6	Retained earnings	32,855	Page 10, retained earnings
7	Accumulated other comprehensive income	0	
8	Other reserves	0	
9	Adjustments to CET1 due to prudential filters	0	
10	Other funds	0	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
19	CET1: Other capital elements, deductions and adjustments	0	
20	ADDITIONAL TIER 1 CAPITAL	0	
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions and adjustments	0	
		0	
25	TIER 2 CAPITAL	0	
26	Fully paid up, directly issued capital instruments	0	
27	Share premium	0	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
29	Tier 2: Other capital elements, deductions and other adjustments	0	

Note all of SIM's Own Funds are made up of Common Equity Tier 1 capital, without deduction.

Table 2 below shows the assets, liabilities and shareholders' equity of SIM cross referenced to Table 1 above:

Table 2- Own Funds: reconciliation of regulatory Own Funds to balance sheet in the audited financial statements				
		a	b	c
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to Table 1 statement
		As at period end	As at period end	As at period end
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
	Trade and other receivables	3,971	n/a	n/a
	Cash and cash equivalents	48,642	n/a	n/a
	Total assets	52,613	n/a	n/a
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
	Trade and other payables	13,064	n/a	n/a
	Other tax	1,694	n/a	n/a
	Total liabilities	14,758	n/a	n/a
Shareholders' equity				
	Share capital	5,000	n/a	Item 4
	Retained Earnings	32,855	n/a	Item 6
	Total shareholders' equity	37,855	n/a	Item 2

Table 3 - Own Funds: main features of own instruments issued by SIM	
Issuer	Santander ISA Managers Limited
Governing law(s) of the instrument	Scottish
Transitional Basel III rules	Common Equity Tier 1
Post-transitional Basel III rules	Common Equity Tier 1
Eligible at solo/group/consolidated	Consolidated
Instrument type (types to be specified by each jurisdiction)	Equity
Amount recognised in regulatory capital (£m)	5
Par value of the instrument (£m)	5
Issue price of instrument	100%
Redemption price of instrument	n/a
Accounting classification	Shareholders Equity
Original date of issuance	24/06/1994
Perpetual or dated	Perpetual
Original maturity date	n/a
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	n/a
Subsequent call dates, if applicable	n/a
Fixed or floating dividend/coupon	Variable
Coupon rate and any related index	n/a
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	Noncumulative
Convertible or non-convertible	Non-convertible
Write-down feature	No
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1

5. Own Funds regulatory requirements

The level of regulatory capital that must be held to absorb losses is the 'Own Funds Threshold' requirements. SIM is required to hold Own Funds in sufficient quantity and quality in accordance with MIFIDPRU.

We explained the level of actual Own Funds held by SIM above. This section describes how we have arrived at the Own Funds Threshold requirements.

Components of the assessment

To determine the own funds requirement of SIM, an assessment of three key items is required. These are:

1. the Permanent Minimum Capital – this is defined by the regulation and is £150,000 for SIM;
2. the Fixed Overhead Requirement – this is a level equal to a quarter of SIM's overheads – this level is £938,588; and
3. the 'K' factors. These factors are applied to three key metrics for SIM. These are explained below and for SIM, the K factor total is £3,529,759.

The 'Own Funds' requirement is the largest of these three key items. For SIM this is therefore £3,529,759.

Additionally, the rules to determine the level of the Own Funds Threshold require that additional amounts need to be held in the event they're required to support an orderly wind down, and to reflect the assessment of risks that relate to SIM. This has led SIM to conclude a higher figure is required of £15,290,000. This is SIM's Own Funds Threshold level.

SIM have also assessed following further stress tests (after some extreme events take place) that additional capital is not required to be held over and above this figure.

SIM's 'K' Factors – more detail

There are three 'K' factors:

- K-ASA – this is 0.04% multiplied by the amount of assets SIM is holding on behalf of its customers. Note that this is not the same as the 'Own Funds' of SIM which belong to SIM the company;
- K-CMH – this is 0.4% multiplied by the amount of client money that SIM is holding on behalf of its customers; and
- K-COH – this is 0.1% multiplied by the value of the orders that SIM is handling on behalf of its customers. This covers both requests to invest money, remove money and other types of orders.

We present the K factor figures below in accordance with MIFIDPRU:

K factor	Value (£)
K-CMH + K-ASA	£3,525,141
K-COH	£4,618
Total K factor assessment	£3,529,759

MIFIDPRU contains detail on other K factors which do not apply to SIM.

Meeting the Overall financial adequacy rule

SIM must always meet the 'overall financial adequacy rule'. This rule states that SIM must, at all times, hold Own Funds and liquid assets which are adequate, both in their amount and quality, to make sure SIM is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities. In addition, SIM must ensure that it has adequate own funds and liquid assets that its business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

SIM meets this requirement through regular monitoring of:

- the Own Funds held by SIM compared with the Own Funds Thresholds calculated according to MIFIDPRU; and
- the liquid assets held by SIM compared with the Liquid Assets Thresholds calculated according to MIFIDPRU.

These assessments are dynamic and reflect the evolution of the 'K' factors above as well as the assessments of risks explained earlier. However, based on this yearly snapshot, we can see that the Own Funds level of £37.86m is significantly in excess of the £15.29m Own Funds Threshold level.

Level of Own Funds held	Own Funds Threshold	Excess held
£37.86m	£15.29m	£22.57m

Data based on final audited accounts dated 31 December 2021 for Level of Own Funds held. Data as at 31 March 2022 for the Own Funds Threshold.

The equivalent position for liquidity is as follows:

Core liquid assets	Liquid Assets Threshold	Excess held
£35.49m	£15.68m	£19.81m

Data as at 31 March 2022.

ICARA process

Central to a firm's risk management framework under the regulatory regime is the Internal Capital Adequacy Assessment Process (**ICARA**), which is not only integral to how the firm manages risk but is also central to how the FCA manages the risk of the firm that it supervises.

As part of the ICARA process the SIM Board oversees and assesses:

- SIM's processes, strategies and systems;
- the major sources of risks faced by SIM that may impact its ability to meet its obligations;
- the results of internal stress testing of these risks; and
- the amounts and types of financial resources and internal capital, including Own Funds and liquidity resources, and whether these are adequate both as to amount and quality to ensure that there is no significant risk that its liabilities can't be met as they fall due.

The outcome of the ICARA is formally approved by the SIM Board at least annually, with more frequent reviews if there is a fundamental change to the business or the operating environment.