Capita Pension Solutions Ltd –

FCA Regulatory Disclosures

Period ending 31 December 2022

Introduction

Capita Pension Solutions Limited (CPSL) is authorised and regulated by the Financial Conduct Authority and is directly owned by Capita plc. CPSL is subject to the regulatory capital and liquidity requirements for investment firms in the FCA's Prudential sourcebook for MiFID Investment Firms (MIFIDPRU) and is classified as a non-SNI MIFIDPRU firm. This document details the disclosures the firm is required to make under MIFIDPRU.

Governance Arrangements

CPSL's governance is led by the CPSL Board which is chaired by an independent non-executive director. The membership comprises a further non-executive director alongside the executive directors. The governance also includes a number of Board committees/subcommittees:

- Audit Committee
- Capital & Risk Committee
- Remuneration Committee
- Risk & Compliance Committee (RACC)
- CASS Oversight Committee

For the year ended 31 December 2022, Capita Pension Solutions Limited operated a Capital and Risk Committee, a Remuneration Committee and an Audit Committee to enable it to manage its obligations and risks. All three committees were chaired by a non-executive Director and all members were non-Executive. The firm is not required to have these committees under the requirements in MIFIDPRU but has determined that they are a useful addition to the firm's governance arrangements.

Capita plc promotes Diversity and Inclusion across its businesses by way of mandatory training and via its Diversity and Inclusion Policy and is committed to creating an environment where diversity is valued, respected and included. In summary, the policy sets out Capita's commitment to:

- Create a workforce that reflects the diversity of our communities, understanding that all the differences in peoples' skills, education, experience, background, education, age, working style, religion or belief, sexual orientation, race, gender and other individual characteristics drive greater effectiveness in decision-making through diversity of thought. It's also the right thing to do.
- Create an inclusive and welcoming work environment free of harassment and bullying, where everyone can achieve their potential and all employees feel, and are, valued and respected.
- Act in accordance with our purpose, values and behaviours and our Code of Conduct, which emphasise the inclusive behaviours expected of all our people and those working on behalf of Capita.

Accordingly, CPSL applies that policy to its business and to the recruitment of members of its Board and is satisfied that it has met the objectives of that policy.

The number of directorships held by members of the management body in the year 2022, together with their knowledge, skills and experience was as follows:

Director name	Number of directorships held
Christopher Clements	8
Stuart Heatley	5
Rosalind Altmann	2
Andrew Darfoor	6

The Directors all have numerous years of experience in order to manage the business effectively; not solely, but skills and experience include leadership, market, industry, strategic planning, risk management, governance, information technology, resource management and financial.

Risk Management Objectives and Policies

As part of Capita Group, CPSL adheres to the Capita Enterprise Risk Management Framework (ERMF).

Capita recognises that effective enterprise risk management is an integral part of running its business and is fundamental to helping it in delighting its clients. Capita's ability to identify, assess and effectively manage risks is critical in ensuring the continued success of its business and protecting long-term shareholder value.

Capita is committed to:

- Promoting and fostering an effective risk culture, attitude, and tone from the top across all Capita
- Proactively managing risks which could threaten its business model, performance, and objectives
- Ensuring risk management is embedded in all activities and decision-making processes
- Defining the group risk appetite which sets the boundaries within which it will manage risk

In applying this approach overall responsibility for risk management for CPSL sits with the CPSL Board to ensure that the risk systems and controls are appropriate and adequate for the nature and size of CPSL's business. The Board sets the culture and tone including segregation of duties in the organisation and the management of conflicts of interest.

Systems, controls and procedures are in place to identify, assess and mitigate major business risks that could impact CPSL. Monitoring exposure to risk and uncertainty is an integral part of the Company's structured management processes and is focused through the Risk and Compliance Committee, which itself is a subcommittee of the Board. The Risk and Compliance Committee meets at least ten times per year and receives formal reports from a range of functions within the business. In addition, the Board's risk management is further supported by other subcommittees, the Capital and Risk Committee and the Audit Committee.

As part of its risk management process CPSL uses the 3 Lines of Defence approach comprising 1st (1LOD), 2nd (2LOD) and 3rd lines (3LOD) as set out in the table below:

3 Lines of Defence		
Line	**Functions**	**Components**
1st	Business Operations Operational Controls	Business delivery management, business process, systems tactical controls and risk identification.
2nd	Executive & Committees Risk & Compliance Group Functions	Executive and committees provide oversight and challenge. CPSL Risk & Compliance provide risk identification, assessment, management and reporting along with day-to-day oversight and challenge of risk and regulatory compliance, supported by Group

		functions: e.g. Information Security, Business Resilience, Data Privacy, Legal, Finance and Commercial.
3rd	Group Internal Audit	Assurance of the effectiveness of the 1st and 2nd line controls by Group Internal Audit (GIA) and group procured external audit, reporting to the CPSL Audit Committee.

Risk Appetite Statement

The Capita ERMF includes the definition of Capita Plc's overall risk appetite. This sets the boundaries within which all Capita firms operate.

CPSL operates within the overall Group risk appetite. However, the Board of CPSL can agree to take less risk per risk category compared to the Group risk appetite but cannot agree to take more risk per risk category.

The Board of CPSL can also set additional firm specific qualitative and quantitative risk appetites for each risk category to ensure the risk appetite of the firm is sufficiently well articulated based on the nature and scale of the business and regulated activity that it undertakes.

The Board of CPSL reviews and updates its firm specific risk appetite statement on at least an annual basis. This review will take into account any changes in the Group Risk Appetite. The Board of CPSL also reviews its firm specific risk appetite during times of significant business or market change.

When reviewing and agreeing its firm specific risk appetite the Board of CPSL ensures its attitude to risk is aligned to its overall strategy and business plan.

The Board of CPSL also agrees on an annual basis (or during times of significant business or market change) Key Risk Indicators (KRIs) for each risk category. These act as an indicator as to whether or not a risk is trending towards a breach of risk appetite and are included in the monthly risk MI.

Reviewing the effectiveness of risk management is undertaken on an ongoing basis. The nature of risks along with their rating and ongoing work/actions are reviewed and updated on a monthly basis by the risk owners and presented at CPSL Risk Committee for discussion and consideration. Attestations and escalations are brought to the Risk Committee from other governance forums.

Any movements in risk ratings along with those risk categories rated as 'Critical' or 'Uncomfortable' are highlighted at the Capital & Risk Committee and at CPSL Board within the Risk & Compliance report. The actions being taken to address and mitigate those risks are discussed at those forums and the effectiveness scrutinised and challenged.

Own funds and Own Funds Requirements

CPSL ensures that it remains financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities. It also ensures that its business would be able to be wound down in an orderly manner. It achieves this through undertaking a thorough Internal Capital Adequacy and Risk Assessment (ICARA) process.

CPSL completed the ICARA process during 2022 enabling it to submit the required information to the FCA. Consequently, the firm has a detailed ICARA document setting out its structure, strategy, governance arrangements, capital position, identified 'Material Harms', stress testing, reverse stress testing and a 'last resort' wind-down analysis. The ICARA also sets out the Own Funds Requirement, k-factor calculations and Fixed Overhead Requirement. Given the dynamic basis of linking strategy, risk appetite and capital, the ICARA is a living document and is subject to revisions. The nature of activities, and the changing regulatory environment for financial services firms, that CPSL is exposed to means these scenarios have to be ratified, stress-tested and changes reported back to the FCA on a periodic basis. The ICARA is also regularly reviewed for fit-for-purpose and any proposed amendments are brought to the CPSL Capital and Risk Committee and approved before they are released to the FCA.

This process ensures that for its Own funds requirements CPSL always holds an appropriate level of capital and liquid resources to cover potential harms and ensure it remains financially viable, can provide services through the economic cycle and if required would enable an orderly wind-down without causing undue economic harm to consumers or to the integrity of the UK financial system.

As at 31 December 2022 CPSL held Own Funds of £72.2m
CPSL's calculation of Own Funds is set out in Appendix 1 below.

The Fixed Overheads Requirement (FOR) for the period is - £27.2m

The breakdown of relevant K-Factors is as follows:

K-COH – £0.04m
K-CMH – £2.91m

CPSL also assesses its capital requirements based on harms identified as part of the risk management processes detailed above. Where this assessment gives capital requirements in excess of the FOR the Company holds additional capital. Management has assessed the risks of material harms and concluded that they do not exceed the firm's Own Funds.

CPSL is not reliant on any single external commercial relationship and therefore we do not believe the exposure to Concentration Risk be material.

CPSL has developed a liquidity management framework to formalise the monitoring and control processes in place to ensure it has sufficient liquid resources to meet its liabilities as they come due. This risk is therefore considered to be minimal.

The assets include bank deposits held with Barclays Bank plc as part of a cash pooling arrangement with other subsidiaries of Capita Plc. In addition, CPSL holds cash within a ringfenced Capita Pension Solutions Limited bank account. The credit and liquidity risk associated with these deposits are reviewed on an ongoing basis and are considered by management to be low.

Remuneration Policies and Practices

CPSL adheres to the Capita Group Remuneration Policy and applies the Capita Group 'Fair Pay Principles' which underpin the approach to pay at all levels and within all parts of the group.

In addition, the CPSL Remuneration Policy sets out how CPSL is committed to:

- Following the FCA remuneration rules and operating consistent and proportionate remuneration arrangements.
- Promote sound and effective risk management, and good alignment between risk and individual reward.
- Not incentivise excessive risk taking or short-termism and are aligned with the long-term interests of all parties, including our customers and those of our clients.
- Avoid conflicts of interest arising as a result of how we assess or reward performance and a person's duty to always act in the best interests of customers.

The Fair Pay Principles set out requirements to ensure pay is:

- Fair
- Consistent
- Transparent
- Competitive
- Clear; and
- Recognises contribution

As stated in 'Governance' above CPSL has its own Remuneration Committee. The membership of this consists of the two non-executive directors with the CPSL Managing Director, CPSL Head of Risk and Compliance, Capita Director of Risk & Compliance and HR Business Partner as attendees. The purpose of the Committee is to ensure CPSL adheres to the applicable regulatory and Group remuneration requirements and to ensure that all its staff are remunerated in a transparent and fair manner and in a way that does not encourage excessive risk taking.

Material Risk Takers

CPSL has assessed which members of its staff are material risk takers (MRTs) as defined within the FCA's SYSC 19G 5.3R rule. The total number of MRTs as at 31 December 2022 was 17. The types of staff identified as material risk takers are:

- Member of the Board (Executive and Non-executive)
- Members of the Senior Management Team
- Heads of Control Functions (Risk & Compliance and Internal Audit)

All relevant staff are paid by basic salary, which is not dependent on company performance. There is also a Management Bonus Scheme which is linked to Group, Divisional and business unit performance as well as individual performance; the bonus scheme is discretionary. Pay and bonuses are linked to numerous factors including non-financial measures such as adherence to the Group's values.

Accordingly, remuneration is made up of a fixed component (basic salary) and a variable component (annual bonus). As stated above the annual bonus is based on a number of factors. 70% of the maximum annual bonus opportunity is based on full year group financial performance objectives. 30% of maximum annual bonus opportunity is based on assessment of full year non-financial objectives and take into consideration the Group Values displayed to achieve the objectives. Any annual bonus is paid annually in cash only. It is not a policy of Capita Group to offer guaranteed variable remuneration. In the case of severance pay applying on exit, Capita Group applies Statutory Redundancy Pay rules and requirements in accordance with its Redundancy Policy.

The financial performance element is based on full year group financial performance objectives. This comprises Revenue, Profit Before Tax and Free Cash Flow which are equally weighted.

The non-financial element is based of a number of metrics. 3 metrics are set at Group or Divisional level and relate to:

- cNPS (Client promoter score)
- eNPS (employee promoter score)
- Diversity & Inclusion

In addition, 2 personal metrics are included relating to supporting the Group's socially responsible, environmental and sustainability aims and a role-specific objective.

Separate from the Management Bonus Scheme there was a Sales Commission Scheme for staff in sales roles within the Consulting part of CPSL for 2022. This is being replaced in 2023 by a Pension Consulting Incentive Scheme and the factors within this scheme are similarly split 70/30 as in the Management Bonus Scheme, with 70% based on the CPSL financial performance and 30% linked to personal values-based objectives. Again, all payments are made in cash.

Remuneration – amounts paid

The total amount of remuneration paid to CPSL staff in the year ended 31 December 2022 was as follows:

Staff Categories	Fixed Remuneration	Variable Remuneration	Total Remuneration
All staff	**£2.3m**	**£0.7m**	**£3.0m**
Staff Categories	**Fixed Remuneration**	**Variable Remuneration**	**Total Remuneration**
Senior Management	**£1.2m**	**£0.5m**	**£1.7m**
MRTs	**0**	**0**	**0**
Other staff	**£1.1m**	**£0.2m**	**£1.3m**

Severance payments made

Staff Categories	Total Severance Payment	No. of Payments made
Senior Management	**£0.44m**	**3**
Other MRTs	**0**	**0**
Highest individual payment	**£0.39m**	

APPENDIX 1 - OWN FUNDS

Composition of regulatory own funds			
	Item	**Amount (GBP thousands)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
	OWN FUNDS	**72,267**	Audited Financial Statements
	TIER 1 CAPITAL	**72,267**	
	COMMON EQUITY TIER 1 CAPITAL	**72,267**	
	Fully paid up capital instruments	30,116	
	Share premium	86,190	
	Retained earnings	38,151	
	Accumulated other comprehensive income	0	
	Other reserves	143	
	Adjustments to CET1 due to prudential filters	0	
	Other funds	0	
	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	82,333	
	CET1: Other capital elements, deductions and adjustments		
	ADDITIONAL TIER 1 CAPITAL	0	
	Fully paid up, directly issued capital instruments	0	
	Share premium	0	
	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
	Additional Tier 1: Other capital elements, deductions and adjustments		
	TIER 2 CAPITAL	0	
	Fully paid up, directly issued capital instruments	0	
	Share premium	0	
	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
	Tier 2: Other capital elements, deductions and adjustments	0	
	OWN FUNDS		
	TIER 1 CAPITAL		
	COMMON EQUITY TIER 1 CAPITAL		
	Fully paid up capital instruments		
	Share premium		
	Retained earnings		
	Accumulated other comprehensive income		

Own Funds: reconciliation of regulatory own funds to balance sheet in audited financial statements				
Flexible template - rows to be reported in line with the balance sheet included in the audited financial statements of the investment firm. Columns should be kept fixed, unless the investment firm has the same accounting and regulatory scope of consolidation, in which case the volumes should be entered in column (a) only. Figures should be given in GBP thousands unless noted otherwise.				
		A	**B**	**c**
		Balance sheet as in published/audited financial statements	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
		As at period end	**As at period end**	
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Property, Plant and Equipment	2,027		
2	Intangible Assets	81,368		
3	Right of use Assets	2,506		
4	Contract fulfilment assets	14,603		
5	Trade and other receivables – Non-Current	2,000		
6	Deferred tax	2,648		
7	Retirement benefit surplus	65		
8	Trade and other receivables – Current	22,225		
9	Accrued income	7,372		
10	Cash	76,586		
xxx	**Total Assets**	211,400		
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1	Trade and other payables – Current	21,531		
2	Deferred income - Current	19,017		
3	Lease liability – Current	1,262		
4	Provisions	7,017		
5	Income tax payable	5,319		
6	Lease liability – Non-Current	2,654		
xxx	**Total Liabilities**	56,800		
Shareholders' Equity				
1	Issued share capital	30,116		
2	Share premium	86,190		
3	Capital redemption reserve	143		
4	Retained earnings	38,151		
xxx	**Total Shareholders' Equity**	154,600		

Own Funds: main features of own instruments issued by the firm
The share capital balance of £30.1m is the nominal proceeds on issue of the Company's equity share capital, comprising 30,115,627 ordinary shares of £1 each. The Share premium balance of £86.3m is the amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them, Issue price The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The capital redemption reserve £0.1m represents the nominal value of the shares redeemed.