Capita Pension Solutions Ltd –
FCA Regulatory Disclosures
Period ending 31 December 2023

Introduction

Capita Pension Solutions Limited (the firm) is authorised and regulated by the Financial Conduct Authority and is directly owned by Capita plc. Capita Pension Solutions Limited 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. As part of the MiFIDPRU requirements the firm is required to complete an Internal Capital Adequacy Risk Assessment (ICARA).

Governance Arrangements

Capita Pension Solutions Limited's governance is led by a Board (the Board) consisting of a Chairman who is an independent non-executive director and other executive and non-executive board members. The governance also includes a number of Board committees/sub-committees, including:

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

For the year ended 31 December 2023, 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. Accordingly, Capita Pension Solutions Limited applies that policy to its business including its Board.

Capita Pension Solutions Limited Board is ultimately responsible for the risk management regime, as well as ensuring that the governance and culture of the firm starts at the Board. This includes the segregation of duties in the organisation and the prevention of conflicts of interest. It is satisfied that the risk systems are adequate for Capita Pension Solutions Limited's profile and strategy.

Systems and procedures are in place to identify, assess and mitigate major business risks that could impact Capita Pension Solutions Limited. 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.

Capita Pension Solutions Limited is not risk averse but seeks to actively manage material risk to the business. Operational risk is the main category of risk faced by the Company. Whilst accepting that data security and fraud risks are inherent within business operations, Capita Pension Solutions Limited has a zero tolerance for fraudulent or corrupt behaviour, with controls designed accordingly.

Whilst risk appetite is strategic and linked to business objectives, risk tolerance is operational and expressed in such a way that it can be linked to the same risk measures implemented by operational teams throughout Capita Pension Solutions Limited's business. The Capita Pension Solutions Limited Risk & Compliance team, who are independent of the business, provide ongoing challenge for the risk management process, as well as ensuring consistency with other parts of Capita.

The Company follows Capita plc policies in relation to the recruitment of members of the management body, including in respect of diversity. The number of directorships held by members of the management body in the year 2023, together with their knowledge, skills and experience was as follows:

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, including the directorships for Capita plc in the year 2023, together with their knowledge, skills and experience was as follows:

Director name	Number of directorships held
Christopher Clements	8
Stuart Heatley	6
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.

Each business unit/function is assigned risks which they manage, develop appropriate Management information (MI) to track the changing risk environment, assess the effectiveness of controls to mitigate risks and assess the residual risk against agreed risk tolerance levels. Due consideration is given to emerging risks, risks outside tolerance, trend analysis of KRI's, significant incidents and risks requiring escalation. They are also responsible for the closure of risks assigned to them.

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.

ICARA process and Own Funds Requirements

The nature of activities pursued by the parent company (Capita plc) and the non-FS nature of these activities mean Capita plc is not subject to FCA capital adequacy requirements. Capita Pension Solutions Limited should however report on any financial control or capital and liquidity arrangements it has with Capita plc, and take into consideration the impact of these financial arrangements with respect to going concern.

Capita Pension Solutions Limited completed the ICARA process in 2022, which is updated thereafter as risks change, with a full refresh exercise performed annually which is signed off by the Board. Consequently, the firm has a detailed ICARA document setting out its structure, strategy, governance arrangements, capital position, quantified '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. Any macroeconomic or external impact, any internal / control impact, any systemic / industry-focused impact feeds into material harms and stress test scenarios that model the financial aspects and influences the institutional responses Capita Pension Solutions Limited has to undertake.

The nature of activities, and the changing regulatory environment for financial services firms, that Capita Pension Solutions Limited 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 Capita Pension Solutions Limited Capital and Risk Committee and approved before they are released to the FCA.

This process ensures that for its Own fund requirements Capita Pension Solutions Limited 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.
Capita Pension Solutions Limited 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 liquid resources include bank deposits held with Barclays Bank plc as part of a cash pooling arrangement with other subsidiaries of Capita Plc. Capita Pension Solutions Limited holds £19.1m (2022: £19.1m) within a ringfenced Capita Pension Solutions Limited bank account held with NatWest Bank. The credit and liquidity risk associated with these deposits are reviewed on an ongoing basis and are considered by management to be low.

The firm's regulatory disclosures under the MiFIDPRU rules have been reviewed and noted by the Board Capita Pension Solutions Limited and published annually.

Own funds
Equity as per Balance sheet as at 31 December 2023 is set out in the table below in £m:

Called up share capital	30.1
Share premium	86.2
Retained earnings and other reserves	53.3
Deductible deferred tax assets	(0.9)
Deductible goodwill & intangibles	(88.9)
Deductible defined benefit asset	(0.1)
Own funds	**79.7**

TIER I CAPITAL
Tier I Capital is comprised of share capital, share premium, retained earnings, less other regulatory deductions, which for the Company comprises of intangible assets. As at 31 December 2023 the Tier 1 capital is £79.7m.

TIER 2 CAPITAL
As at 31 December 2023 the Tier 2 capital is £nil.

OWN FUNDS REQUIREMENTS
The Company's regulatory requirements resulting from the FCA's MiFIDPRU rules are that it must have a permanent minimum capital requirement of £150,000. The own funds requirement is the highest of the following:

- the permanent minimum capital requirement of £150,000
- the fixed overheads requirement (FOR); or
- the K-Factor requirement plus business risk which is the total quantified impact of identified "material harms"

The FOR has been assessed as £35.7m (2023: £27.2 m).
The K-factor requirement is £3.0m, made up of:

i) K-CMH of £2.7m
ii) K-COH of £0.0m
iii) K-AUM of £0.3m

The business risk is identified as part of the risk management processes whereby the impact of material harms are quantified. Management have assessed that the business risk from material harms equates to £36.2m.

Capita Pension Solutions Limited have therefore identified the own funds requirement to be £39.2m being the total K-factor requirement of £3.0m plus the business risk of £36.2m.

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 Nominations & 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 2023 was 15. 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. Capita Management Bonus Plan is open by invitation only. The Management Bonus Plan typically operates for a 12-month period aligned to the business financial year. The plan is reviewed every year by the Group Remuneration Committee for alignment to the Group Strategy. The specific performance targets and a range for varying levels of payment for achievement of business or individual performance are usually expressed as "threshold", "target" and "stretch" ranges. This is to align to outcomes with minimum, expected and outstanding levels of performance.

The 2023 Management bonus Plan is split into two elements; 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.

Each objective will be assessed independently of one another. Payment against any of the non-financial objectives is subject to achievement of the profit (PBT) financial objective meeting at least 'Threshold' performance.

The 2023 Management Bonus Payment will be in cash. Payments will be made as soon as practicable after full year results have been audited, approved, and announced.

Financial Performance Objectives
The target range for each objective has been set by the Remuneration Committee after consideration of the relevant Business Plan numbers and will be measured against Group performance for all.

Non-Financial Bonus Objectives
As detailed above four of the five non-financial bonus measures cover the key corporate priorities with the fifth covering a role-based priority.

Separate from the Management Bonus Scheme there are three other types of variable plans applicable to the CPSL Employees in 2023. These are as follows:

- Commission Plans for employees in sales roles –
  a. The Group plan
  b. The locally funded pension specific commission plan
- Pensions Consulting Incentive scheme
- Anniversary Payments Scheme paid in Pensions Delivery

All plans are reviewed yearly for alignment to the group and Business Strategy.

Remuneration – amounts paid

The total amount of remuneration paid to CPSL staff in the year ended 31 December 2023 was as follows:

Staff Categories	Fixed Remuneration	Variable Remuneration	Total Remuneration
All code staff	**£3.2**	**£1.8**	**£5.0m**
Staff Categories	**Fixed Remuneration**	**Variable Remuneration**	**Total Remuneration**
Senior Management	**£1.4m**	**£0.7m**	**£2.1m**
Executive & Board	**£1.6m**	**£1m**	**£2.6m**
Other code staff	**£0.2m**	**£0.1m**	**£0.3m**

Severance payments made

There were no severance payments made in the year ended 31 December 2023.

Staff Categories	Total Severance Payment	No. of Payments made
Senior Management	**0**	**0**
Other MRTs	**0**	**0**
Highest individual payment	**0**	

APPENDIX 1 - OWN FUNDS

Composition of regulatory own funds			
	Item	**Amount (GBP millions)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
	OWN FUNDS	**79.7**	Audited Financial Statements
	TIER 1 CAPITAL	**79.7**	
	COMMON EQUITY TIER 1 CAPITAL	**79.7**	
	Fully paid up capital instruments	30.1	
	Share premium	86.2	
	Retained earnings	53.3	
	Accumulated other comprehensive income	0	
	Other reserves	0.1	
	Adjustments to CET1 due to prudential filters	0	
	Other funds	0	
	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	89.0	
	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: 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 millions 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	0.9		
2	Intangible Assets	88.9		
3	Right of use Assets	1.6		
4	Contract fulfilment assets	14.6		
5	Trade and other receivables – Non-Current	1.1		
6	Deferred tax	2.6		
7	Employee benefits	0.1		
8	Trade and other receivables – Current	80.7		
9	Cash and cash equivalents	30.2		
xxx	**Total Assets**	220.7		
Current Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1	Trade and other payables	13.7		
2	Deferred income	18.2		
3	Lease liabilities	1.3		
4	Provisions	5.4		
5	Income tax payable	7.9		
xxx	**Total Liabilities**	46.5		
Shareholders' Equity				
1	Issued share capital	30.1		
2	Share premium	86.2		
3	Capital redemption reserve	0.1		
4	Retained earnings	53.3		
xxx	**Total Shareholders' Equity**	169.7		

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 30.1m ordinary shares of £1 each. The Share premium balance of £86.2m 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.