



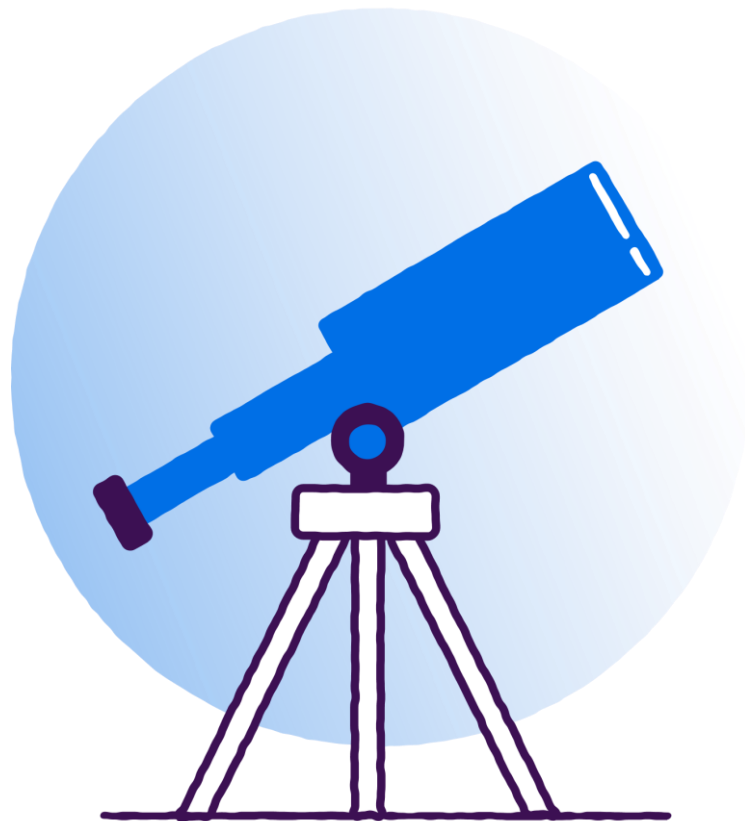
NatWest  
Group

# **MIFIDPRU8**

# **Investment Firm**

# **Regulatory Return**

# **December 2023**



## Introduction

NatWest Trustee and Depositary Services Limited (NWTDS) is a wholly owned subsidiary of The Royal Bank of Scotland International (Holdings) Limited (RBSIH). NWTDS is authorised and regulated by the Financial Conduct Authority (FCA), FCA reference number 794152 and company reference number 11194605 and has its registered office in 250 Bishopsgate London EC2M 4AA.

In January 2022 the FCA introduced the Investment Firms Prudential Regime ("IFPR"), for firms authorised under the Markets in Financial Instruments Directive ("MiFID"). The rules and guidance are formalised in the FCA's Prudential Sourcebook for MIFID Investment Firms ("MiFIDPRU"). IFPR is a regulatory process to refocus prudential requirements away from the sole focus on the risks firms' face, to also consider and look to ensure adequate capital to manage the potential harm firms can pose to consumers and markets. These rules are publicly available and can be found at [handbook.fca.org.uk/handbook/MIFIDPRU](http://handbook.fca.org.uk/handbook/MIFIDPRU).

NWTDS has the key FCA permissions of acting as a trustee or depositary to UK Undertakings for Collective Investment in Transferable Securities ("UCITS"), UK authorised Alternative Investment Fund ("AIF") and unauthorised AIF; and dealing in investments as principal. NWTDS currently has two services in scope for IFPR being acting as trustee and depositary for UCITS, AIFs and unauthorised AIFs; and Dealing and Custody Services.

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

### 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 NWTDS manages risks within its business.
3. Governance arrangements
4. NWTDS' Own Funds held – The levels of Own Funds with a full breakdown, including a reconciliation with the NWTDS Financial Statements; and
5. Own Funds regulatory requirements – The levels of Own Funds and the regulatory thresholds

### Disclosure

This document sets out the disclosures that we are required to make publicly available under MIFIDPRU. The disclosures have not been audited and do not form part of NWTDS' annual audited financial statements and they should not be relied upon in making any judgment about the financial position of NWTDS. These disclosures are calculated as at 31 December 2023. In accordance with MIFIDPRU, these disclosures are made on an annual basis as soon as practical after the publication of NWTDS' annual audited financial statements. These disclosures may be made more frequently where appropriate, for example, in the event of a major change to our business model.

## 1. Risk Management Framework

NWTDS operates under NatWest Group's Enterprise Wide Risk Management Framework ("EWRMF"), which is centred around the embedding of a strong risk culture. The framework ensures the governance, capabilities and methods are in place to facilitate risk management and decision-making across the organisation.

The framework ensures that NWTDS's principal risks – which are detailed in this section – are appropriately controlled and managed. In addition, there is a process to identify and manage principal risks, which are those which could have a significant negative impact on the NWTDS' ability to meet its strategic objectives. A complementary process operates to identify emerging risks. Both top and emerging risks are reported to the NWTDS Board on a regular basis alongside reporting on the principal risks.

Risk appetite, supported by a robust set of principles, policies and practices, defines the levels of tolerance for a variety of risks and provides a structured approach to risk-taking within agreed boundaries.

All NWTDS' colleagues share ownership of the way risk is managed, working together to make sure business activities and policies are consistent with risk appetite.

The methodology for setting, governing and embedding risk appetite is being further enhanced with the aim of revising current risk appetite processes and increasing alignment with strategic planning and external threat assessments.

### Culture

Culture is at the centre of both the risk management framework and risk management practice. The target culture across NWTDS is one in which risk is part of the way employees work and think. The target risk culture behaviours are aligned to NatWest Group's core values. They are embedded in Our Standards and therefore form an effective basis for risk culture since these are used for performance management, recruitment and development.

### Training

A wide range of learning, both technical and behavioural, is offered across the risk disciplines. This training can be mandatory, role-specific or for personal development and enables colleagues to develop the capabilities and confidence to manage risk effectively.

### Our Code

NatWest Group's conduct guidance Our Code provides direction on expected behaviour and sets out the standards of conduct that support the values. The code explains the effect of decisions that are taken and describes the principles that must be followed.

### Three Lines of Defence

In line with industry best practice and sound risk governance principles, NatWest Group adopts a Three Lines of Defence model of risk governance. We expect everyone across the NatWest Group to make thoughtful, risk-based decisions as part of their daily roles.

The Three Lines of Defence model also helps us understand and define activities which are related to risk management (First Line of Defence ("1LOD")) and oversight and control activities (Second Line of Defence ("2LOD")). This makes sure both the 1LOD and 2LOD remain independent in their activities and allows Risk to offer challenge in its capacity as a 2LOD function.

The 1LOD are the franchises and functions where the primary purpose of the role is to consciously engage in taking risk to serve customers and generate profit and also include roles which directly support those that do e.g. Technology, HR and Legal. The franchises and functions in 1LOD are empowered to take risks within the constraints of the framework, policies, risk appetite statements and measures set by the NatWest Group Board. The 1LOD is responsible for managing its direct and, with the support of specialist

functions, its consequential risks (e.g., Operational risk) by identifying, assessing mitigating, monitoring and reporting risks.

The 2LOD is the Chief Risk Officer Function and is independent from the 1LOD. The Chief Risk Officer Function is empowered to design and maintain the Executive Committee approved EWRMF and its components. 2LOD's key activities are advises to monitors, challenges, approves and escalates where required and reports on the risk taking activities undertaken by the 1LOD, ensuring these are within the constraints of the framework, policies, risk appetite statements and measures set by the relevant entity Board.

The Third Line of Defence is the Internal Audit function. Internal Audit provides independent assurance on the overall design and operating effectiveness of key internal controls, governance and risk management in place to monitor, manage and mitigate the key risks to the NatWest Group and its subsidiary legal entities in achieving objectives. Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditor's Code of Ethics and Standards on independence and objectivity.

### **Risk appetite**

Risk appetite defines the level and types of risk that are acceptable, within risk capacity, in order to achieve strategic objectives and business plans. It links the goals and priorities to risk management in a way that guides and empowers staff to serve customers well and achieve financial targets.

The risk appetite framework, which is approved annually by the NatWest Group's Board, bolsters effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging risks and risk-taking activities that would be out of appetite are identified, assessed, escalated and addressed in a timely manner.

Risk appetite is maintained across NatWest Group through risk appetite statements. These provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to staff.

The annual process of establishing risk appetite statements is completed alongside the business and financial planning process. This ensures plans and risk appetite are appropriately aligned. The Board sets risk appetite for the most material risks to help ensure NWTDS is well placed to meet its priorities and long-term targets even in challenging economic environments. It is the basis on which NWTDS remains safe and sound while implementing its strategic business objectives.

The NWTDS' risk profile is frequently reviewed and monitored and management focus is concentrated on all strategic risks, material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to the Board and senior management.

Risk controls and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for material risk types is set in alignment with business activities.

NatWest Group policies support the qualitative aspects of risk appetite. They ensure that appropriate controls are set and monitored.

### **Identification and measurement**

Identification and measurement within the risk management process comprise:

Regular assessment of the overall risk profile, incorporating market developments and trends, as well as external and internal factors

Review of potential risks in new business activities and processes

Analysis of potential risks in any complex and unusual business transactions

The financial and non-financial risks that NatWest Group faces are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used across NatWest Group. The

Risk Directory is subject to regular review. This ensures that it continues to provide a comprehensive and meaningful list of the inherent risks.

Within NatWest Group, a 'Risk Universe' is produced to provide a legal entity view of the NatWest Group Risk Directory. This helps to acknowledge that there are some risks faced by NWTDS that are not material at NatWest Group level and, conversely, there are risks that are more material to the NatWest Group than to NWTDS directly.

## **Mitigation**

Mitigation is an important aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within NWTDS.

When evaluating possible strategies, costs and benefits, residual risks (risks that are retained) and secondary risks (those that are due to risk mitigation actions) are considered. Monitoring and review processes are in place to evaluate results. Early identification, and effective management, of changes in legislation and regulation are critical to the successful mitigation of compliance and conduct risk. The effects of all changes are managed to ensure the timely achievement of compliance. Those changes assessed as having a high or medium-high impact are managed more closely. Significant and emerging risks that could affect future results and performance are reviewed and monitored. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures relative to the risk, is also carried out.

## **Testing and monitoring**

Targeted compliance & conduct risk and financial crime risk activities are subject to testing and monitoring to confirm to both internal and external stakeholders – including the Board, senior management, the customer facing businesses, Internal Audit and the Company's regulators – that policies and procedures are being correctly implemented and operating adequately and effectively. Selected key controls are also reviewed. Thematic reviews and deep dives are also carried out where appropriate.

The adequacy and effectiveness of selected key controls owned and operated by the second line of defence are also tested.

Anti-money laundering, sanctions, anti-bribery and corruption and tax evasion processes and controls are also tested and monitored. This helps provide an independent understanding of the financial crime control environment, whether or not controls are adequate and effective and whether financial crime risk is appropriately identified, managed and mitigated.

## **1.1. Own Funds Risk**

Own Funds are a measure of the firms' financial resources, after allowing for its liabilities. The level of Own Funds is important as they must meet certain threshold levels set out in the regulations and the FCA's rules.

Based on the capital assessment summarised in this report, both the Board and Management have sufficient confidence to conclude that NWTDS has sufficient own funds (current and projected) to cover the material risks which NWTDS is or could be exposed to within the considered time horizon.

It is critical in supporting the group-wide businesses and is enacted through an end-to-end framework across NatWest Group, its businesses and the legal entities on which it operates. Specific areas of capital management include:

- a. Strategic financial and capital planning: Through assessing the impact of sensitivities and scenarios on the capital plan and capital ratios.
- b. Risk appetite: Through gaining a better understanding of the drivers and the underlying risks associated with risk appetite.
- c. Risk identification: Through a better understanding of the risks that could potentially impact NWTDS financial strength and capital position.

- d. Risk mitigation: Through identifying actions that can be taken to mitigate risks or could be taken in the event of adverse changes to the business or economic environment. Risk mitigation is substantially supplemented through the NWTDS recovery plan.

See sections 3 and 4 for further information on own funds.

## **1.2. Concentration risk**

Concentration Risk was fully considered when undertaking the NWTDS Material Harm Assessment.

Client Concentration – Where a small number of clients make up the majority of NWTDS’ revenue a loss of one or more of those clients could give rise to a fall in the fees received by NWTDS. This risk is monitored through the NWTDS risk forums and is a trigger for the NWTDS Recovery and Resolution Plan.

Counterparty Concentration – NWTDS has delegated the safekeeping of the assets under depositary to a number of third party custodians. NWTDS accepts that it does have concentrations of exposures to banking counterparties which could give rise to an increased level of risk. This is monitored through the depositary’s independent record of assets, due diligence and oversight of the delegates and compliance to the CASS rules.

## **1.3. Liquidity**

This is the risk that NWTDS, although meeting the required level of own funds and liquid assets, does not have sufficient resources available to allow it to meet its obligations when they are due.

As a depositary institution (customers Assets under depositary are only subject to oversight without being held in NWTDS balance sheet) and thus not managing any deposit/cash accounts or providing facilities for its fund’s clients, NWTDS has very limited exposure to liquidity risk as well as very low cash-flow fluctuations.

The current scope of operation and type of services offered by NWTDS does not give rise to maturity transformation mechanisms and presents a negligible aspect of the risks the NWTDS is facing.

Internal liquidity analysis concluded that NWTDS liquidity profile is very strong with an operational survival period that exceeds 3 years.

## **2. Governance**

### **Background**

NWTDS are committed to the highest standards of corporate governance, business integrity and professionalism in all of our activities. Having a robust corporate governance framework means we have the right structures, systems, controls and individual and collective responsibilities to make sound business decisions. These need to be supported by the right culture and behaviours and Our Values (inclusive, curious, robust, sustainable and ambitious).

NWTDS has a How We Manage Our Business document which sets out the high level corporate governance framework and systems and controls. The document covers the operating model, structure (including segregation of duties between Board and Management), Board and Board committees, decision making and delegated authorities, risk, financial control, asset and liability management and internal audit. This document should be considered in conjunction with the How We Manage Our Business document for the parent company of NWTDS, RBSIH. The How We Manage Our Business document is reviewed annually and approved by the NWTDS Board.

### **NWTDS Board**

The NWTDS Board is chaired by an independent non-executive Director. The Chair is supported by one independent non-executive Director, two internal non-executive Directors and two executive Directors (the Managing Director, Head of Trustee and Depositary Services, The Royal Bank of Scotland International Ltd (RBSI) and the Head of Finance Business Partners and Solutions, RBSI). The NatWest Group has nominated an independent representative who has the right to attend Board and Board Committee meetings.

It is a requirement that these individuals have a good understanding and knowledge of the business of NWTDS and its main risks and sufficient time in their current role to take on Board and Board Committee's responsibilities effectively.

The non-executive Directors provide input and independent oversight and challenge to management and support the Chairman in setting the "tone from the top" on culture.

The non-executive Directors combine broad business and commercial experience with independent and objective judgment and the balance between non-executive and executive Directors on the boards enables each board to provide clear and effective leadership across the relevant entity's business activities.

Board and committee members are collectively responsible for board and committee decisions.

### **NWTDS Board Committees**

The NWTDS Board is supported by Audit, Risk and Nominations Committees. These committees are chaired by independent non-executive Directors.

The **Board Risk Committee** (BRC) operates under the authority delegated to it from the Board. It provides oversight and advice to the Board in relation to current and potential future risk exposures and future risk strategy, including determination of risk appetite and tolerance. It is also responsible for promoting a risk awareness culture within NWTDS.

The BRC meets quarterly or ad-hoc as required. It provides information and recommendations to the Board. Similar to the Board, the Chair provides a regular report to the Board Risk Committee of RBSIH).

The **Audit Committee** (AC) operates under the authority delegated to it from the Board. It is responsible for assisting the Board in carrying out its responsibilities relating to accounting policies, internal control, financial reporting functions, internal audit, external audit, risk assessment and regulatory compliance. The Committee also reviews matters relating to the financial affairs of NWTDS; accounting and financial reporting and regulatory compliance; internal controls, Internal Audit, Risk Management and the external Auditors.

The AC sits quarterly or ad-hoc if required. It reports to, and provides recommendations for action to, the Board. Similar to the Board, the Chair provides a regular report to the Audit Committee of RBSIH.

The **Nominations Committee** is responsible for assisting the Board in carrying out its responsibilities in relation to monitoring board composition and succession planning, as well as considering board appointments. The Committee meets at least annually or ad-hoc as required.

### **NWTDS Management**

The Managing Director, Head of Trustee and Depositary Services, RBSI International has responsibility for the NWTDS business and acts in accordance with the authority delegated by the Board. This includes responsibility for delivering strategy, leading management of the business and leading development of business risk appetite. The Managing Director, Head of Trustee and Depositary Services, RBSI reports to the Chief Executive Officer, RBSI.

### **Diversity, equity and inclusion**

NWTDS is committed to providing equal treatment and equal opportunities in all aspects of employment and in the management and governance of its business affairs. Information about our approach to diversity, equity and inclusion is provided on the NWG website. The NWTDS Board Diversity and Inclusion Policy set out below.



## **NWTDS Board – External appointments**

MIFIDPRU 8.1 disclosures relating to Board members holding external executive and non-executive directorships in organisations are set out below:

### **DIRECTORS:**

Jeffrey Scott (Chairperson) – Four directorships

Ian Greenstreet (Non-executive Director) – Four directorships

Mark Crathern – One directorship

James Rowney (Non-executive Director) – Seventeen directorships

Wendy Redshaw (Non-executive Director) – Three directorships

Dominic Simpson – One directorship

From 01 January 2023 to date, no changes have taken place.

## **NWTDS Board Diversity and Inclusion Policy**

### **Purpose and Summary**

This policy sets out the approach to diversity and inclusion in relation to the NWTDS Board. This policy sits alongside the NWG diversity and inclusion framework which applies across the whole of NWG.

### **Policy Statement**

The Boardroom Inclusion Policy (the Policy) aims to promote diversity and inclusion in the composition of the Board of Directors of NatWest Trustee and Depository Services Limited and in the nominations/appointments process. The Policy reflects the values of the wider NatWest Group, its Inclusion Guidelines and relevant legal or voluntary code requirements.

The NatWest Group, including NWTDS, values and promotes inclusion in all areas of recruitment and employment. The Board of NWTDS is supportive of this view and understands the need for a diverse mix of talented directors to effective decision-making. This Policy provides a framework to ensure that the Board attracts, motivates and retains the best talent and avoids limiting potential caused by bias, prejudice or discrimination.

### **Policy objectives**

These objectives exist to ensure that the NWTDS Board, and any Committee it delegates nominations responsibilities to, follow an inclusive process when making nominations/appointments decisions:

1. The board nominations/appointments process will be based on the principles of fairness, respect and inclusion.
2. All board nominations/appointments will be made on the basis of individual competence, skills and expertise measured against identified objective criteria.
3. The search for board candidates will be conducted and nominations/appointments made with due regard to the benefits of diversity and inclusion and to this Policy, with due consideration of the educational, professional and socio-economic backgrounds, gender, age, ethnicity, disability, sexual orientation and geographical provenance of candidates. Due regard will also be given to these diversity and inclusion characteristics when considering appointments to the board committees.
4. The Policy and any future material updates will be presented to the NWTDS Nominations Committee for recommendation to the NWTDS Board for approval.
5. All relevant Policy updates should reflect the NatWest Group's Inclusion Guidelines and be aligned to the NatWest Group's.
6. Values, particularly the value to be Inclusive; and



- Policy content should comply with relevant legislation, regulation and the Financial Reporting Council's UK Corporate Governance Code.

### Statement of Intent

This statement of intent reflects the NWTDS Board's ongoing commitment to progress. The Board is committed to promoting diversity and inclusion in the boardroom and aim to meet industry targets and recommendations wherever possible. This includes, but is not limited to, aspiring to meet the targets set by the [Hampton-Alexander Report: FTSE100 Women Leaders](#) and the Parker Report: Beyond 1 by '21 by the recommended target dates.

**Ambition:** This policy also acknowledges the NatWest Group ambition to have gender balance in our global top 3 levels (CEO-3 and above) by 2030.

The NWTDS Nomination Committee is responsible for leading the process for board appointments and overseeing the development of a diverse succession pipeline for the NWTDS Board. The policy is reviewed regularly and considered at least annually by the NWTDS Nominations Committee which recommends to the NWTDS Board for approval. The policy is considered when recommending and approving appointments to the Board.

## 3. 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
1	OWN FUNDS	63,247
2	TIER 1 CAPITAL	63,247
3	COMMON EQUITY TIER 1 CAPITAL	63,247
4	Fully paid up capital instruments	65,000
6	Retained earnings	28,208
7	ADDITIONAL TIER 1 CAPITAL	-
8	TIER 2 CAPITAL	-

## 4. Own Funds requirements

As set out in MIFIDPRU 4.3.2: The own funds requirement of a non-SNI MIFIDPRU investment firm is the higher of:

- Its permanent minimum capital requirement under MIFIDPRU 4.4.6 (GBP4 million)
- Its fixed overheads requirement under MIFIDPRU 4.5 (GBP5,832k – Made up of non-discretionary staff costs (52%) and other costs (48%; broken down to 35% recurring costs and 65% of exceptional items); or
- Its K-factor requirement under MIFIDPRU 4.6. (nil)

## 4.1. Own Funds and Additional Own Funds Capital Requirements

This assessment includes quantitative aspects for assessing capital adequacy and will serve as a support for strategic decision-making. At the same time it will aim to ensure that NWTDS has adequate capital on an ongoing basis, thereby promoting an appropriate relationship between risk and reward. In line with the regulatory capital framework, NWTDS holds capital under Pillar 1 and Pillar 2. As part of the process the following components are considered:

Pillar 1 provides the minimum level required based on the highest of 3 component parts set out in MIFIDPRU regulations

Pillar 2 builds on the Pillar 1 regulatory minimum through assessing all of NWTDS material risks (from the Material Harm Assessment) and provides a tool against which capital requirements can be evaluated. (Additional Own Funds Requirement)

Stress testing looks at the impact of macroeconomic and single factor events on NWTDS and how any losses sustained through the scenario could reduce the levels of capital held

Consideration for the level of capital required under a Wind Down scenario is also included

CET1 is monitored monthly against Recovery Indicators and is escalated to the contingency team if this falls below Level 1 threshold, as documented in the NWTDS Recovery Plan.

### Own funds: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	Balance sheet as in published/audited financial statements
	As at period end 31/12/23
<b>Assets</b> – Breakdown by asset classes according to the balance sheet in the audited financial statements	
1 Intangible assets	29,945
2 Deferred tax assets	16
3 Amount due from group companies	87
4 Other assets	5,369
5 Cash at bank	69,339
<b>Total Assets</b>	<b>104,756</b>
<b>Liabilities</b> – Breakdown by liability classes according to the balance sheet in the audited financial statements	
1 Amount due to group companies	5,950
2 Other liabilities	4,148
3 Current tax liabilities	1,231
<b>Total Current Liabilities</b>	<b>11,329</b>

### Shareholders' Equity

1	Ordinary shares	65,000
2	Retained earnings	28,208
	<b>Total Shareholders' equity</b>	<b>93,208</b>
<b>Own funds: Main features of own instruments issued by the firm</b>		
1	Fully paid up capital instruments	65,000
2	Prior Year Retained earnings	28,208
3	Profit or loss attributable to owners of the parent	3,895
4	(-) Part of interim or year-end profit not eligible	(3,895)
5	(-) Other intangible assets	(29,945)
6	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(16)
	<b>Total Own Funds</b>	<b>63,247</b>

## 5. Remuneration policy and practices

Our core remuneration disclosures for NWTDS, including the description of the remuneration policy were published alongside the remuneration disclosures for other entities in the RBS International (Holdings) Limited sub-group at <https://investors.natwestgroup.com/~media/Files/R/RBS-IR-V2/results-center/16022024/rbs-international-pillar-3-report.pdf> Disclosing this information in the Pillar 3 report is consistent with the location and format used for all other remuneration disclosures made for entities across NWG. There are no significant changes to highlight from the prior disclosure period.

No quantitative disclosures are made in respect of aggregated remuneration for NWTDS colleagues. 23 colleagues have been identified as MRTs for NWTDS during PY 2023. However, in line with our practice for all other Group entities, we exclude individuals from quantitative disclosures when their remuneration is reported in the disclosures for another Group entity (for which the individual is also identified as an MRT). As all NWTDS MRTs are also MRTs of other Group entities, the quantitative disclosures for NWTDS are all nil. You can find details of remuneration paid to MRTs in our Pillar 3 reporting for other entities within NatWest Group, at a consolidated, sub-consolidated and solo entity level, at [natwestgroup.com](https://natwestgroup.com).

Colleagues working in NWTDS are employed by other Group entities and seconded to NWTDS. Staff costs for colleagues employed by other Group entities are recharged to the entity and are disclosed in the financial statements. The fixed and variable staff costs reported below are derived from the accounting note (excluding non-remuneration items such as employer's national insurance costs).

<b>Staff Costs</b>	
	<b>2023</b>
	<b>GBP ('000)</b>
Fixed Costs	12,733
Variable Costs	1,092
<b>Total</b>	<b>13,825</b>

## 6. Investment Policy

Although NWTDS holds shares indirectly in the ordinary sense of the interpretation NWTDS does not meet the criteria in MIFIDPRU 8.7.8