

## MIFIDPRU 8 Disclosures

**Investment Firm Prudential Regime - Internal Capital Adequacy and Risk Assessment****1. Introduction**

This document provides an overview of the process and associated results for Brown Brothers Harriman Investor Services Limited (“BBH ISL” or the “Company”) under the Internal Capital Adequacy and Risk Assessment (“ICARA”) programme. This document, among other things, establishes a record by which BBH ISL has assessed its capital requirements relative to the risks to which it is or is likely to be exposed, pursuant to its ICARA process.

Prior to 2022, BBH ISL was classified and operated as a BIPRU Limited License Firm in accordance with the UK Capital Requirements Regulation. Following the implementation of the FCA’s new Investment Firm Prudential Regime (“IFPR”) as from 1 January 2022, BBH ISL was categorised as a Small and Non-Interconnected Firm (“SNI”). Under the IFPR, BBH ISL is subject to the FCA’s ICARA process, requiring institutions to perform internal capital and liquidity assessments on an annual basis or upon a material change.

BBH ISL was subsequently classified as a Non-Small and non-Interconnected Firm (“non-SNI”) from 1 September 2022, due to an increase in foreign exchange activity and resultant increase in BBH ISL’s monthly MiFID Client Orders Handled calculation.

This document sets out BBH ISL’s IFPR disclosures in accordance with Chapter 8 of the FCA Prudential Sourcebook for MiFID Investment Firms (“MIFIDPRU”). MIFIDPRU 8 has been applied to BBH ISL on an individual basis.

Unless otherwise stated, the disclosures and figures in this document are as at 31 December 2022.

**2. Summary Conclusions**

BBH ISL’s ICARA assessment resulted in the following summary conclusions:

- BBH ISL is adequately capitalised with capital significantly exceeding minimum Own Funds Threshold Requirements as well as both regulatory and internal buffers.
- BBH ISL’s risk management processes and controls reflect the overall conservative risk profile and low risk appetite of the Board of Directors (“Board”) and BBH ISL’s parent company, Brown Brothers Harriman & Co. (“BBH&Co”).
- BBH ISL’s governance, risk and control program is effective in the timely identification, quantification, management, monitoring and controlling of risks associated with its business operations. The Company’s governance, risk and control infrastructure is supported by Enterprise Risk Management, Internal Audit and Compliance, which work collectively with the business to mitigate the risks associated with business operations.
- As of 31 December 2022, BBH ISL’s Own Fund Requirements amount to GBP 4.45 mio based on audited financials as of 31 December 2022. BBH ISL’s Overall Financial Adequacy

Capital requirements or Capital Threshold amounts to GBP 4.96 mio with an FCA Early Warning indicator of GBP 5.46 mio. Total capital at BBH ISL amounted to GBP 7.4 mio at 31 December 2022, well exceeding the FCA Early Warning indicator.

- BBH ISL does not make loans, conduct proprietary trading activities or take in deposits; as such, credit, market and liquidity risks are de minimis.
- BBH ISL has conducted enhanced stress testing and scenario analysis as part of the ICARA process. Stress tests conducted relate to (i) significant growth and decline in revenues, (ii) the loss of major securities lending and foreign exchange clients, (iii) the wind-down of its foreign exchange product, and (iv) a significant regulatory penalty. In addition, stress testing includes an aggregated scenario that results in multiple events (the addition of a large client during a period of abnormal growth coupled with a regulatory penalty) occurring simultaneously. Results of stress testing also indicate that for each scenario analysed, the current level of Core Liquid Asset and Overall Liquid Assets significantly exceeds the Basic Liquid Assets and Overall Financial Adequacy Liquidity Assets respectively in 2023, 2024 and 2025.
- BBH ISL has assessed the risk associated with its remuneration practices in accordance with regulations promulgated by the FCA. The results of the assessment indicated that BBH ISL's remuneration programme is in compliance with regulations and promotes a sound business environment which strongly discourages inappropriate risk taking.

### **3. Business Profile, Structure and Strategy**

BBH ISL is a wholly-owned subsidiary of BBH&Co., a New York state chartered private bank organised as a limited partnership. BBH ISL's FCA permissions are listed below:

BBH ISL, inter alia:

- is authorised to arrange deals in investments
- is authorised to deal in investments as agent
- is authorised to make arrangements with a view to transactions in investments
- is able to provide investment advice (except on Pension Transfers and Opt Outs)
- is not authorised to manage investments or hold client money and does not deal as principal

BBHISL's products and services including arranging and/or conducting business as agent in the following areas:

- Foreign exchange ("FX")
- Securities lending ("SL")
- Funds distribution of BBH Luxembourg Funds. BBH did not engage in funds distribution activity in 2022, rendering the sub-distribution arrangement as inactive.
- Investment operations – not a regulated activity. BBH ISL promotes BBH&Co.'s investment operations services and provides servicing and relationship management to clients.

The Company does not conduct activities on a principal basis, and clients are generally fund managers, asset managers and institutional clients.

Additionally, BBH ISL provides servicing and relationship management services to clients and prospects of other BBH&Co. group entities. The relationship management function is charged with the management of existing clients and sales of new products and services to new and existing clients for BBH ISL and other BBH&Co. group offices.

The business strategy set by the BBH ISL's Board is the backdrop to a conservative risk profile which supports conscious and profitable risk-taking and operating within a strong risk framework which identifies when risk levels become elevated and reporting and escalating to management for further assessment. One of the Company's strengths lies in the fact that it focuses primarily on providing services to regulated investment funds and exchange traded funds, as well as a small number of alternative investment funds. BBH ISL competes successfully on its ability to provide superior client service to a small number of proven global asset managers and its ability to leverage global client relationships as well as the global operational and technology infrastructure supported by its parent, BBH&Co.. The Company's conservative business model and robust Risk Management, Compliance and Audit frameworks ensure that the Company is taking risk on that it believes it has the appropriate tools and resources to manage and drive profitability. These risks are identified, quantified and closely monitored to ensure that levels are neither above nor below the appropriate levels set by the Board to achieve the strategic goals. BBH ISL is considered to not have significant residual risk exposure in any risk category.

In addition to various policies and procedures that exist in all lines of defence, BBH ISL has a Risk Management Policy which summarises all risk management programme components.

#### **4. Material Risks and Risk Mitigation**

As a wholly-owned subsidiary of BBH&Co., BBH ISL is subject to the risk management and control framework employed by BBH&Co. on a global basis. BBH&Co. and BBH ISL have an integrated and well developed governance, risk and internal control infrastructure. Dedicated resources in the business, Compliance, Enterprise Risk Management, the Office of General Counsel and Internal Audit work with BBH&Co. counterparts to provide an effective, independent and comprehensive governance structure. Formalised policies and procedures associated with risk identification and assessment are designed to ensure that capital is more than adequate to address regulatory requirements and business objectives.

Key risks and controls are continuously monitored by line management, who are supported by risk manager(s) with oversight provided by business line senior management committees comprised of partners and senior executives. Members of management must establish, implement and maintain an effective risk management programme for their business to ensure the ongoing effectiveness of controls. This includes continuous monitoring and evaluation of the business unit's primary activities and major processes in order to identify, document, and implement appropriate control mechanisms for all material risks. It also includes promoting an environment that encourages employees to promptly identify and escalate any risk issues so that they can be addressed in a timely fashion. Managing risk is a continuous process whereby both BBH ISL and BBH&Co. managers are identifying and evaluating risks, establishing limits for those risks and implementing controls to remain within those limits.

Currently, the Company views the following as its top risks on a residual basis (listed alphabetically).

- Business Interruption Risk
- Counterparty & Credit Risk
- Cyber Risk
- Fraud Risk
- KYC, AML, Sanctions & Financial Crimes Risk
- Legal, Regulatory and Fiduciary Risk
- Operational Risk
- Strategic & Competitive Risk
- Technology & Data Management Risk
- Workforce Risk

The risks inherent in BBH ISL activities are primarily Operational Risk. Credit risk is low and mainly associated with funds placed with BBH&Co. and with receivables from prime brokers associated with the foreign exchange business. Market risks mainly consist of foreign exchange risk and interest rate risk. Foreign exchange risk is associated with assets and liabilities denominated in currencies other than GBP. The main non-GBP exposure results from the USD receivables from prime brokers associated with foreign exchange business. Interest rate risk, given the balance sheet structure as well as existing rates and terms of interest bearing assets, is low. Liquidity risk is low as BBH ISL is self funded and liabilities consist of staff and vendor expenses.

In an effort to leverage operational efficiencies as well as the risk and control infrastructure in place at BBH&Co., operations processing is largely outsourced to BBH&Co. BBH ISL's ICARA includes a detailed analysis of Operational Risk, including outsourcing risk.

Additionally, as detailed in its ICARA, liquidity risk at BBH ISL is considered low as evidenced by the balance sheet structure and the high quality and marketability of assets. BBH ISL does not accept deposits, does not underwrite loans and has no external financing or borrowing requirements.

## 5. Own Funds

This disclosure is made in accordance with the MIFIDPRU 8.4 requirements, using the MIFIDPRU 8 Annex 1R template. The information contained within this section is as at 31 December 2022.

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
<b>1</b>	<b>OWN FUNDS</b>	<b>7,368</b>	<i>Financial Statements Year ended 31 December 2022 :</i> - p.14 Balance sheet - Capital & Reserves - p.25 Notes to the accounts - 12 Called up share capital
<b>2</b>	<b>TIER 1 CAPITAL</b>	<b>7,368</b>	
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>7,368</b>	
4	Fully paid up capital instruments	7,368	
5	Share premium	-	
6	Retained earnings	-	
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
<b>20</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
<b>25</b>	<b>TIER 2 CAPITAL</b>	-	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

<b>Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements</b>			
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 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	
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>			
1	Fixed assets	669	
2	Tangible fixed assets	669	
3	Investment	0	
4	<b>Current Assets</b>	<b>17,832</b>	
5	Debtors	2,592	
6	Cash at bank and in hand	15,240	
	<b>Total Assests</b>	<b>18,501</b>	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>			
1	Creditors: amounts falling due within one year	8,647	
	<b>Total Liabilities</b>	<b>8,647</b>	
<b>Shareholders' Equity</b>			
1	Called up share capital	7,368	Composition regulatory OF - line 1,2,3,4
2	Retained earnings	2,485	
	<b>Total Shareholders' equity</b>	<b>9,854</b>	

<b>Own funds: main features of own instruments issued by the firm</b>	
Free text. A non-exhaustive list of example features is included below.	
Allotted and fully paid share capital - 7,368,254 ordinary shares of £1 each	

The K-factor requirements:

K-COH as of 31 December 2022 amount to GBP 116k

The Fixed Overhead Requirement.

The base Fixed Overhead Requirement at 31 December 2022 amounts to GBP 4,447,975

## **6. Implementation and Documentation of ICARA**

The ICARA process has provided the Board with a comprehensive assessment of the Company's internal risk quantification and risk management processes. This analysis includes an assessment of BBH ISL's overall risk profile, whether risks are being identified in a comprehensive manner and managed appropriately, and what opportunities exist for improvement of the risk management process.

### **ICARA Governance**

The ICARA was produced by a BBH ISL team comprised of BBH ISL's Enterprise Risk Management, Controllers, and Line of Business management. BBH ISL Compliance also provided guidance in respect to regulatory requirements and processes. Senior management of BBH ISL are continuously involved in the ICARA process: participating in workshops, providing input into stress

testing and scenario analysis, and providing ongoing updates to the Senior Management Committee and quarterly updates to the Board, as appropriate. In addition to the above, sections of the ICARA document have been reviewed by subject matter experts in the relevant departments. Specific sections of the ICARA (including Stress Tests and Wind Down Plan) include updates and input from relevant BBH ISL functions such as Human Resources, FX and FX Risk Management.

## **7. Remuneration Disclosures**

The following disclosures related to BBH ISL's remuneration policies and procedures are made in accordance with the MIFIDPRU Remuneration Code, detailed in MIFIDPRU 8.6 of the FCA Handbook. As required, a MIFIDPRU investment firm such as BBH ISL must disclose the following.

### ***Information concerning the decision-making procedures and governance surrounding the development of the BBH ISL remuneration policies and practices***

BBH ISL's remuneration policies seek to reward long-term value creation while discouraging excessive risk taking. The Firm's global remuneration policies are determined and set by a centralized Finance Committee at the BBH&Co. level, and are reviewed and ratified by the Board. The BBH ISL Remuneration Policy was reviewed and approved by the Board.

In addition, independent review and oversight of remuneration policies are performed by risk, governance and control group stakeholders, including Office of the General Counsel, Compliance, Enterprise Risk Management and Human Resources. The stakeholders meet on a periodic basis and formally report to the Board as required.

### ***External consultant services used for the determination of the remuneration policy***

While no external consultants were utilized for development of BBH ISL's remuneration policies, regulatory and best practice guidelines were complied with where applicable.

### ***Risk profile of BBH ISL***

BBH ISL is wholly owned by BBH&Co., a private partnership. The partnership is a significant motivator to BBH&Co.'s and BBH ISL's risk management culture as the general partners are jointly and severally liable for all business activities. Partners sit on the Board and the BBH&Co. Finance Committee and are responsible for the development, implementation and monitoring of remuneration policies and risk appetite firmwide.

BBH ISL has implemented a comprehensive risk and control framework that includes but is not limited to: (i) a governance structure that includes oversight committees comprised of partners and senior executives; and (ii) dedicated control resources in Enterprise Risk Management, Compliance and Office of the General Counsel groups. The aim of this framework is to ensure that all risks associated with business activities have been identified and are managed appropriately. BBH ISL's business activities are relatively low risk in nature as they are carried out on an agency basis and BBH ISL does not engage in any proprietary trading activities.

### ***Approach to remuneration for all staff***

Remuneration practices at BBH ISL are aligned with BBH&Co. and BBH ISL's risk appetite and long-term goals and objectives. They seek to reward long-term value creation while discouraging excessive risk taking. Compensation is directly tied to BBH&Co.'s and BBH ISL's earnings and performance as well as an individual's performance.

### ***Non-Financial Performance Criteria***

Performance bonus awards for BBH ISL employees are based on individual performance ratings which are determined through the Employee Development and Performance (EDP) process. Objectives are set at the beginning of the year and individual performance is rated at the end of the year against those objectives. Non-financial performance criteria are not set on a firm-wide or business unit basis.

#### *Financial Performance Criteria*

Annual earnings targets are established at the beginning of the year on a firm-wide and business unit basis. These ratings and targets are utilized to determine the increase/decrease in an individual's variable compensation. The financial performance criteria are measured holistically and are not set or measured on an individual basis.

#### *Components of remuneration and their categorisation as fixed or variable*

The remuneration for BBHISL employees consists of a base salary, which is fixed, and performance bonus / variable compensation elements, which are variable. The base salary is based primarily on local market salary information taking into consideration the role covered and scope of responsibilities and taking into consideration non-financial and financial criteria as applicable. The performance bonus / variable compensation elements, paid out wholly in cash, are based on the non-financial and financial criteria as applicable. Remuneration for BBH ISL employees is evaluated on at least an annual basis. Additional benefits provided in the normal course of business are not considered awards and are not deemed part of an employee's variable remuneration component.

#### *Aggregate quantitative information on remuneration*

The following table represents aggregate base remuneration data for BBH ISL employees for the year ending 31 December 2022:

- Total amount of remuneration awarded: £14,282,413.27
- Fixed remuneration awarded: £9,714,055.50
- Variable remuneration awarded: £4,568,357.77