

# Northern Trust Securities LLP

## MIFIDPRU 8 Regulatory Disclosures

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*As of and for the year ended December 31, 2023*



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## Glossary of Terms

|                |   |
|----------------|---|
| <b>CET1</b>    | Common Equity Tier 1  |
| <b>CFO</b>     | Chief Financial Officer   |
| <b>CRO</b>     | Chief Risk Officer  |
| <b>CRR</b>     | Capital Requirements Regulation                                     |
| <b>EMC</b>     | EMEA Executive Management Committee                                 |
| <b>ERC</b>     | EMEA Risk Committee   |
| <b>ERGG</b>    | EMEA Remuneration Governance Group                                  |
| <b>FCA</b>     | Financial Conduct Authority   |
| <b>FOR</b>     | Fixed Overheads Requirement   |
| <b>GBCRS</b>   | Global Business Continuity and Recovery Services                    |
| <b>HCCC</b>    | Human Capital and Compensation Committee                            |
| <b>ICARA</b>   | Internal Capital Adequacy and Risk Assessment                       |
| <b>IFPR</b>    | Investment Firm Prudential Regime                                   |
| <b>KFR</b>     | K-Factor Requirement  |
| <b>LATR</b>    | Liquid Assets Threshold Requirement                                 |
| <b>LTI</b>     | Long-Term Incentive   |
| <b>MRT</b>     | Material Risk Taker   |
| <b>Non-SNI</b> | Non- <i>'small and non-interconnected'</i> MIFIDPRU investment firm |
| <b>NTC</b>     | Northern Trust Corporation  |
| <b>NTS LLP</b> | Northern Trust Securities LLP                                       |
| <b>OFAR</b>    | Overall Financial Adequacy Rule                                     |
| <b>OFTR</b>    | Own Funds Threshold Requirement                                     |
| <b>RMF</b>     | Risk Management Framework   |
| <b>SMCR</b>    | Senior Managers and Certification Regime                            |
| <b>STI</b>     | Short-Term Incentive  |

## 1 Overview and scope of application

### 1.1 Investment Firm Prudential Regime

The Investment Firm Prudential Regime (**IFPR**) came into effect on 1 January 2022, replacing the previous Capital Requirements Regulation (**CRR**) regime for UK investment firms. The IFPR is intended to streamline and simplify the prudential requirements for MiFID investment firms that are regulated by the UK Financial Conduct Authority (**FCA**).

Under the FCA's MIFIDPRU Sourcebook, specifically MIFIDPRU 8, Northern Trust Securities LLP (**NTS LLP**) is required to disclose items on the following topics:

- Risk management;
- Governance arrangements;
- Own funds;
- Own funds requirements; and
- Remuneration.

This document forms the second set of disclosures under the IFPR, and the first with comparable year-on-year data

### 1.2 Scope of application

The scope of these disclosures is NTS LLP, which is classified as a non-*'small and non-interconnected'* (**non-SNI**) MIFIDPRU investment firm per MIFIDPRU 1.2 of the FCA Handbook.<sup>1</sup> It is authorised and regulated by the FCA, with a firm reference number of 465131.

NTS LLP offers institutional clients a suite of brokerage services including equity trade execution, fixed income trade execution, portfolio trading, exchange-traded derivatives trade execution as well as pre- and post-trade analytics.

NTS LLP trades as a limited liability partnership in the United Kingdom. NTS LLP has permissions to advise on and deal in investments as both agent and principal. It is authorised to control, but not hold client money and does not currently deal with private client investors. In order to facilitate its client's orders across a variety of trading venues and platforms, NTS LLP acts on a 'matched principal' basis for its clients by trading as principal in the market and entering a 'back-to-back' trade with the client.

#### 1.2.1 NTS LLP's position within The Northern Trust Corporation

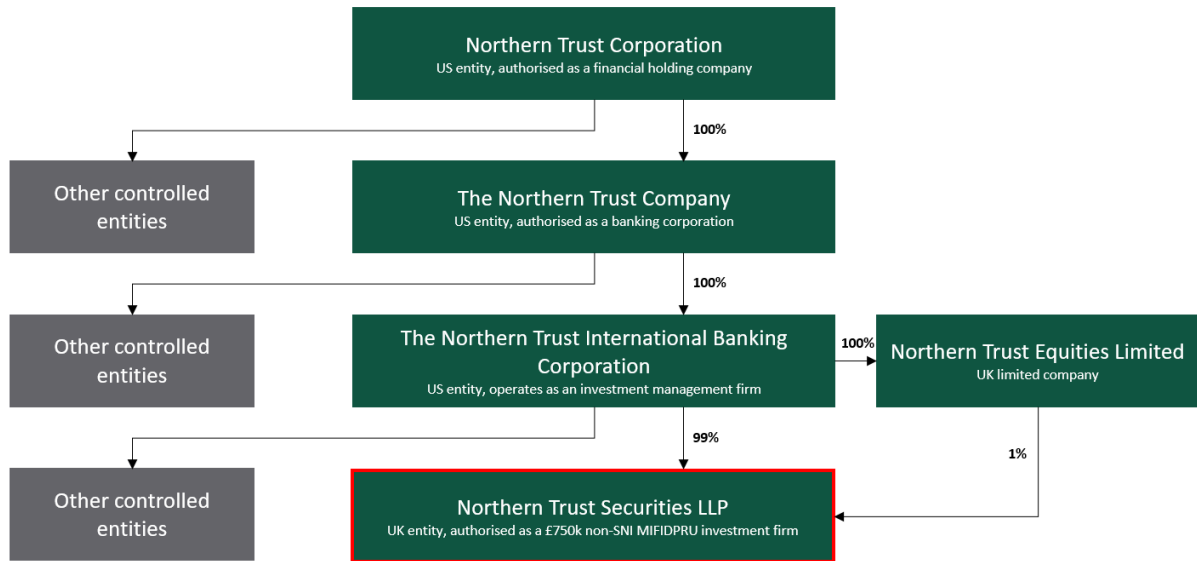
NTS LLP has two partners. As at 31 December 2023 the relative partner interests were as follows: The Northern Trust International Banking Corporation has a 99% interest, and Northern Trust Equities Limited has a 1% interest.

The ownership structure is set out below.

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<sup>1</sup> <https://www.handbook.fca.org.uk/handbook/MIFIDPRU/1/2.html>

**Figure 1: NTS LLP ownership structure**



### 1.3 Location and frequency of disclosure

These disclosures are updated on an annual basis anchored on NTS LLP’s financial year-end date of 31 December 2023 and published in the Investor Relations section of Northern Trust Corporation’s (NTC’s) website.<sup>2</sup> These are completed in conjunction with NTS LLP’s audited annual financial statements.

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<sup>2</sup> <https://www.northerntrust.com/united-states/about-us/investor-relations/financial-information-regulatory-disclosures>

## 2 Risk management objectives and policies

### 2.1 Risk organisation and governance

Risk management is the responsibility of the NTS LLP Management Committee. In discharging this responsibility, the Committee utilises the Northern Trust global and regional risk frameworks as required. Policies and practices are validated and locally approved and the local risk organisation is structured to provide the Management Committee with the necessary risk reporting and oversight to satisfy their responsibilities.

The EMEA Executive Management Committee (**EMC**) has responsibility for risk oversight across all entities within the EMEA region, including NTS LLP. The EMC oversees the daily management of Northern Trust's businesses in EMEA and its agreed strategy. The EMC has appointed the EMEA Risk Committee (**ERC**) to assist it in managing all risks. Supporting local governance, the ERC covers all activities conducted within the EMEA region to which the Capital Market Risk Council provides updates.

The primary purpose of the Global Capital Markets Risk Council is to act as the main forum within Asset Servicing for the identification, measurement, monitoring and management of the inherent risks of the Capital Markets business, which includes the activities carried out by NTS LLP. This Council serves as the primary point of escalation for material residual risks identified.

As part of the ongoing operation of the Risk Management Framework (**RMF**), NTS LLP employs a “*three lines of defence*” model. The responsibilities across the three lines of defence are fundamental to the design and implementation of the RMF and taken together establish an appropriate operating model to control risk taking.

The first line of defence is accountable and responsible for identifying, measuring, controlling and monitoring risks associated with its activities either individually or with the assistance of the second line of defence. The first line of defence is typically engaged in activities designed to generate revenue, reduce expense, provide operational support for delivery of products or services to clients, and provide technology services.

The second line of defence is accountable and responsible for identifying, measuring, monitoring, and controlling risk in aggregate. The risk and compliance practices, as independent functions separate and distinct from the business units, are considered NTS LLP's second line of defence.

The third line of defence is accountable and responsible for independently assessing the design and ongoing effectiveness of governance, risk management, and internal controls. Audit Services is an independent control function that assesses and validates controls within the RMF.

Northern Trust's approach to risk appetite is based on three inter-related elements, designed to support consistent enterprise risk identification, management and reporting: a comprehensive risk inventory, a static taxonomy of risk categories and a dynamic taxonomy of risk themes. The Risk Inventory is a detailed register of the inherent risks faced by Northern Trust.

For capital purposes, Northern Trust considers the following risk categories: credit, market, liquidity, operational, strategic, fiduciary and compliance.

### 2.2 Principal risks and potential harms

The risk profile of NTS LLP is determined through a point in time assessment of inherent and residual risks across the major risk categories and subcategories listed in the Northern Trust Risk Universe. The risk

categories include credit risk, market risk, liquidity risk, strategic risk, operational risk, fiduciary risk and compliance risk.

Alongside the existing process to identify and mitigate harm to firm, the IFPR rules now require firms to consider and manage the potential harms to clients and markets too. NTS LLP focuses on and evaluates its associated risks through the lens of these harms. NTS LLP has endeavoured to embed the three harms concept within the RMF to ensure at a minimum these are considered within the processes of all main inputs to the Internal Capital and Risk Assessment (**ICARA**). The ICARA is described further in Section 5.2.

The following sub-sections identify the principal risks facing NTS LLP and the associated potential for material harms.

NTS LLP maintains a suite of quantitative and qualitative risk measures (legal entity specific and group based) which can be mapped to the risk categories below. These measures are monitored and reported as part of the entity's quarterly risk report which is submitted to the NTS LLP Management Committee.

### **2.2.1 Strategic risk**

Strategic risk is the risk of loss from the adverse effects of business decisions, or the improper implementation of those decisions, and the risk that internal or external forces impede the long-term plans of the business for growth, profitability and stability. If such events were to crystallise for NTS LLP, the material harms will be to the firm itself and clients.

For NTS LLP, strategic risk is managed by the NTS LLP Management Committee. NTS LLP Management draws upon the NTS LLP legal entity risk reporting, the EMEA and Corporate risk governance structure, as well as risk management programmes to oversee strategic risk.

From a Northern Trust Group perspective, which NTS LLP is part of, group strategic risk is managed by NTC's Board of Directors. NTC's Chief Executive Officer and senior management, including the Global Enterprise Risk Committee, support the NTS LLP Management Committee in the performance of its functions.

### **2.2.2 Operational risk**

Northern Trust defines operational risk as the risk of loss from inadequate or failed internal processes, human factors and systems or from external events. If such events were to crystallise for NTS LLP, the most material harms will be to the firm itself and clients. The entity's objective is to manage operational risk so as to balance the avoidance of financial losses and reputational damage with overall cost effectiveness.

For capital purposes, Northern Trust considers operational risk to include compliance and fiduciary risk, although each of these risks are governed and managed separately. Subsequent to this, NTS LLP identifies the following as key operational risks facing the entity:

- Business disruption and system failures (operational risk);
- Execution, delivery and process management (operational risk);
- Internal fraud (operational risk);
- Regulatory risk (compliance risk); and
- Financial crime risk (compliance risk).



Regulatory risk and financial crime risk are covered in Section 2.2.3

Business disruption and system failure risk is managed and overseen by Corporate Information Security Technology Risk Management and Global Business Continuity and Recovery Services (**GBCRS**):

- Corporate Information Security and Technology Risk Management identifies and analyses both day-to-day technology risks and longer term strategic risks as well as devoting considerable time to the potential risks posed by the threat of cyber-attack, covering system security, availability and performance and system development and implementation.
- GBCRS help to assess and coordinate incident responses and set standards for the content and testing of disaster recovery and business continuity plans.

Execution, delivery and process management risk is managed by line managers through regular reviews of trade and transaction records, loss event data and other business and management reporting relating to trading activity.

Internal fraud is managed through corporate anti-fraud controls and procedures (includes IT risk programs and controls) which are used to detect and mitigate fraud incidents. Northern Trust has a dedicated Fraud Prevention Unit responsible for the proactive review of suspicious activity to prevent fraud and mitigate the risk of losses.

Line managers have the primary responsibility for managing the inherent risks of all NTS LLP activities under their control. As part of Northern Trust's operational risk management, various techniques are employed to identify current risks. A reconciliation and exception management policy enables potential risk to be identified in a timely manner. NTS LLP management is of the view that NTS LLP's inherent operational risk is mitigated by Northern Trust's operational risk framework.

### **2.2.3 Compliance risk**

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or damage to reputation resulting from its failure to comply with laws, regulations, rules, other regulatory requirements or codes of conduct and other standards of self-regulatory organizations applicable to its activities. Regulatory and financial crime risk are the two sub-components of compliance risk:

- Regulatory risk arises from the failure to comply with either prudential or business conduct regulatory requirements. Conduct risk incorporates the requirements that seek to protect the interests of customers and the integrity of the market; and
- Financial crime risk is the risk arising from financial crime (e.g. money laundering, sanctions violations, fraud, insider dealing, theft etc.) in relation to the products, services, or accounts of the institution, its clients, or others.

A failure to independently assess the risk of money laundering, sanctions violations, fraud, insider dealing, and theft in relation to products, services, clients, vendors, etc. is a threat that can result in reputational, financial and regulatory risks for the entity.

NTS LLP is an execution-only agency brokerage and as a result the firm's primary regulated activities are limited to the reception and transmission of orders and execution of orders on behalf of clients. While the firm does have other permissions, these are not regularly relied upon, and consequently this limits the range of compliance risks that the firm is exposed to.

Regulatory and financial crime risk have been identified as key operational risks facing NTS LLP. A failure to manage these can impact NTS LLP's ability to operate and service its clients effectively. If such risk events were to crystallise, the most material harms will be to the firm itself and clients.

The compliance risks facing NTS LLP and the underlying processes and controls to manage said risks are assessed under Northern Trust's compliance risk program. An annual compliance risk assessment is completed for the entity where all significant and applicable rules and corresponding controls are evaluated in accordance with a global methodology that has been created by Northern Trust Global Compliance.

## **2.2.4 Other risks**

### **2.2.4.1 Liquidity risk**

Liquidity risk is the risk of not being able to raise sufficient funds or collateral to meet balance sheet and contingent liability cash flow obligations when due, because of firm-specific or market-wide events.

The primary objective of liquidity risk management is to maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there are no significant risks that NTS LLP's liabilities cannot be met as they fall due under both normal and adverse economic conditions.

Under Northern Trust's risk framework, liquidity risk is governed by the first and second line of defence committees, namely the Asset and Liability Management Policy Committee and the Market and Liquidity Risk Committee respectively. NTS LLP operates within this framework. Assessment and approval of the systems and controls used to manage liquidity risk is provided by the NTS LLP Management Committee. As part of this framework, an annual Liquidity Risk Assessment is compiled for the review and approval of the NTS LLP Management Committee.

The NTS LLP balance sheet consists of cash balances, trade debtors and intercompany items. NTS LLP does not take customer deposits and only trades as a riskless principal, so balance sheet liabilities are limited to the payment of operating expenses.

### **2.2.4.2 Group risk**

NTS LLP also considers group risk when performing its ICARA risk assessment. Given the global nature of Northern Trust's operating model, there are a number of dependencies on other legal entities within the Northern Trust Corporation to support day to day business activity.

### **2.2.4.3 Concentration risk**

NTS LLP has determined that its concentration risk arises from the following sources: the trading book; non-cash credit exposures, NTS LLP's own cash deposits and earnings.

NTS LLP acts as an agency broker when executing client orders, and while for certain asset classes and instruments it does act in a matched principal capacity, it does not trade in the market without first holding a valid client order. Consequently, the circumstances in which NTS LLP may use an Error Account to take a position in financial instruments onto its own account are limited. An error book policy is in place which sets out the requirements of the error book as well as associated escalation and reporting requirements.

Given the simple composition of the balance sheet of NTS LLP, exposures are generally intercompany receivable amounts. The control in place for these exposures is to ensure settlement within standard terms. This avoids an accumulation of an exposure to a single counterparty. There is therefore minimal

concentration risk associated with third-party receivables and intercompany receivables which are generally settled on a quarterly basis.

In terms of own cash deposits NTS LLP holds an amount equal to at least the net cost of winding down in at least one bank account external to the NT Group. This balance is monitored monthly as part of the established treasury monitoring of liquid assets.

Earnings concentration is monitored through a revenue concentration index which has been developed in order to monitor the evolution of revenue concentration over time.

Regulatory reporting on concentration risk (MIF004 return) is submitted to the FCA on a quarterly basis so as to allow the FCA oversight of the following types of concentrations in relation to NTS LLP:

- Top five largest exposures (excl. intergroup exposures);
- Intragroup exposures only;
- Location of NTS LLP's own cash balances and the percentage of holdings at a particular institution; and
- Top five revenue generating clients and the percentage of total revenue earned from each client.

### **2.3 Risk Appetite**

Risk appetite is defined as the aggregate level and types of risk the NTS LLP Management Committee and senior management are willing to assume to achieve the entity's strategic objectives and business plan, consistent with prudent management of risk and applicable capital, liquidity and regulatory requirements.

The NTS LLP Risk Appetite Statement reflects the expectation that risk is consciously considered as part of day-to-day activities and strategic decisions. NTS LLP establishes its Risk Appetite Statement by Risk Themes. Each theme is supported by a series of risk measures which are reported on as part of the quarterly NTS LLP Risk Report.

The NTS LLP Risk Appetite Statement is reviewed and approved on at least an annual basis by the NTS LLP Management Committee.

### **2.4 Adequacy of Risk Management Arrangements**

The nature of the business operating model employed by NTS LLP results in residual exposure to credit, market, liquidity, strategic risk and operational risk.

Capital is set against these risks and allocated according to regulatory requirements and the ICARA process.

The NTS LLP Management Committee is satisfied that risk management arrangements are aligned with risk profile and strategy of the business. The Management Committee also confirms that the disclosures contained within this document accurately reflect the risk profile of the business based on the activities it undertakes.

### 3 Governance arrangements

#### 3.1 Effective implementation of governance arrangements

It is a requirement for a firm to ensure that the management body, the NTS LLP Management Committee, defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the firm, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of clients.

To ensure these responsibilities are undertaken, the NTS LLP Management Committee has terms of reference in place which provides the framework to ensure that it:

- Has overall responsibility for the firm;
- Approves and oversees implementation of the strategic objectives, risk strategy and internal governance of NTS LLP;
- Ensures the integrity of the accounting and financial reporting systems of NTS LLP, including financial and operational controls and compliance with the regulatory system;
- Oversees the process of disclosure and communications;
- Has responsibility for providing effective oversight of senior management;
- Monitors and periodically assesses the following:
  - The adequacy and implementation of the strategic objectives of NTS LLP when servicing its clients' needs;
  - The effectiveness of its governance arrangements;
  - The adequacy of policies relating to the provision of services to clients, taking appropriate steps to address any deficiencies; and
- Has adequate access to information and documents which are needed to oversee and monitor management decision-making.

Evidence of the discharge of these responsibilities is found within the Management Committee Packs distributed to members of the Management Committee and formal minutes taken at each meeting.

The apportionment of responsibilities and governance structure for the entity is outlined in the NTS LLP Management Responsibilities Map maintained internally.

The NTS LLP Management Committee generally meets on a quarterly basis and on ad hoc occasions as required.

Information for dealing with conflicts of interest is set out in the EMEA Client Conflicts of Interest & Inducements Policy document which is applicable to all regulated Northern Trust EMEA entities and approved by the ERC and all Boards/Management Committees of the EMEA entities covered by the policy, including the NTS LLP Management Committee. The policy sets out how NTS LLP seeks to prevent and deal with conflicts of interest if they arise.

NTS LLP is classified as a core solo regulated firm under the Senior Managers and Certification Regime (SMCR).

To ensure the members of the NTS LLP Management Committee are competent to carry out their duties and meet the requirements to manage NTS LLP on a sound and prudent basis, an annual fit and proper assessment under the SMCR is undertaken to take reasonable steps to ascertain that each member:

- Is of sufficiently good repute;
- Possesses sufficient knowledge, skills and experience to perform their duties;
- Possesses adequate knowledge, skills and experience to understand the firm's activities, including the main risks; and
- Acts with honesty and integrity.

Additionally, the Management Committee undergoes an annual performance effectiveness assessment and an annual collective suitability assessment to ensure the committee governance operates effectively and the composition of the committee provides for appropriate knowledge, skills and experience to discharge the duties conferred upon the committee as outlined in the terms of reference.

### 3.2 Management Committee Directorships

Per MIFIDPR 8.3.1R(2), NTS LLP is required to disclose the number of directorships held by each member of the Management Committee. This does not include any directorships held within the Northern Trust Corporation group of companies nor directorships held in organisations which do not pursue predominantly commercial objectives.

This information is presented in the table below:

**Table 1: NTS LLP Management Committee member external directorships as at 31 December 2023**

| Member name      | Senior Management Function                        | No. of directorships |               |
|------------------|---|----------------------|---------------|
|                  |   | Executive            | Non-executive |
| John Davie       | SMF27 Partner                                     | 0                    | 0             |
| Laurence Everitt | SMF27 Partner                                     | 0                    | 0             |
| Mark Walker      | SMF1 Chief Executive<br>SMF27 Partner             | 0                    | 0             |
| Paula Kenee      | SMF9 Chair of the Governing Body<br>SMF27 Partner | 0                    | 0             |

No changes were made to the Management Committee over the course of 2023.

### 3.3 Policy promoting diversity on the NTS LLP Management Committee

As long-standing core ethical values, diversity, equity and inclusion are invaluable to Northern Trust's business success, Northern Trust recognises that the broad array of perspectives that result from acquiring, developing and retaining a globally diverse workforce promotes innovation and helps it succeed as a business enterprise and community advocate.

Northern Trust's focus on diversity, equity and inclusion helps it provide unrivalled service to clients and create a healthy, thriving workplace environment for employees from diverse demographic groups, leadership styles and skill sets. Northern Trust celebrates differences, whether in thought or background, and educates its employees about those differences throughout the year with events, community outreach and connections to professional organisations.

Northern Trust operates a policy and practice at group level of providing equal employment opportunities to all employees and applicants. Northern Trust expressly prohibits any discriminatory practice based on age, race, religion, belief, gender, national origin, citizenship status, disability, marital status, pregnancy,

sexual orientation, gender identity, gender expression, or any other legally protected status. All employment decisions are made in a non-discriminatory manner. This includes human resources' decisions relating to compensation, recruitment, redundancy, termination, terms and conditions of employment, transfers, appraisals and promotions, conduct at work, disciplinary and grievance procedures and access to learning and development. Employees are required to ensure that they do not, by their own actions, behaviour or attitudes, directly, indirectly, intentionally or otherwise discriminate against job applicants, employees, clients, vendors, contractors and temporary workers.

Northern Trust's commitments to diversity, equity and inclusion extend to the appointments to its management body and senior personnel to attract a broad set of qualities and competencies.

Furthermore, to support the promotion of a diverse workforce overall, Northern Trust is a member/charter holder of the following groups and initiatives:

- Women in Finance Charter;
- Race at Work Charter;
- Tech Talent Charter;
- Sustainable Trading Network; and
- Diversity Project UK.

In line with its commitments under the HM Treasury Women in Finance Charter, Northern Trust has set a recommended gender goal of 38% female across its management body and senior personnel. Northern Trust is working hard to improve its diverse talent's readiness for Board and Management Committee positions, and in 2023, a project was set up to enhance the communication and cohesion between various parties to streamline the appointment process. As part of this, we have purposefully integrated the appointment process, talent pipelining and readiness training and development into existing HR practices.

### **3.4 Risk Committee**

MIFIDPRU 7.3.1R requires a firm to establish a risk committee if it exceeds thresholds in relation to the value of on-balance sheet assets and off-balance sheet items (including off-balance sheet considerations), and where necessary, the size of the firm's on- and off-balance sheet trading book and derivative positions.

NTS LLP does not meet the thresholds required to establish a risk committee. A summary of the NTS LLP risk arrangements is set out in Section 2.

## 4 Own funds

### 4.1 Composition of own funds

Own funds of NTS LLP are made up solely of Common Equity Tier 1 (CET1) capital instruments. The table below sets out a breakdown of the composition of own funds.

**Table 2: OF1 - Composition of regulatory own funds**

| Item   | Amount (£000) | Source based on reference numbers/letters of the balance sheet in the audited financial statements |
|--|---------------|--|
| <b>1 OWN FUNDS</b>   | <b>34,721</b> |  |
| <b>2 TIER 1 CAPITAL</b>  | <b>34,721</b> |  |
| <b>3 COMMON EQUITY TIER 1 CAPITAL</b>                                    | <b>34,721</b> |  |
| 4 Fully paid up capital instruments                                      | 15,306        | <i>Pg. 11 - Balance Sheet</i>  |
| 5 Share premium  | 0             |  |
| 6 Retained earnings  | 0             |  |
| 7 Accumulated other comprehensive income                                 | 0             |  |
| 8 Other reserves   | 19,415        | <i>Pg. 11 - Balance Sheet</i>  |
| 9 Adjustments to CET1 due to prudential filters                          | 0             |  |
| 10 Other funds   | 0             |  |
| 11 (-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1                        | 0             |  |
| 19 CET1: Other capital elements, deductions and adjustments              | 0             |  |
| <b>20 ADDITIONAL TIER 1 CAPITAL</b>                                      | <b>0</b>      |  |
| 21 Fully paid up, directly issued capital instruments                    | 0             |  |
| 22 Share premium   | 0             |  |
| 23 (-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1                           | 0             |  |
| 24 Additional Tier 1: Other capital elements, deductions and adjustments | 0             |  |
| <b>25 TIER 2 CAPITAL</b>   | <b>0</b>      |  |
| 26 Fully paid up, directly issued capital instruments                    | 0             |  |
| 27 Share premium   | 0             |  |
| 28 (-) TOTAL DEDUCTIONS FROM TIER 2                                      | 0             |  |
| 29 Tier 2: Other capital elements, deductions and adjustments            | 0             |  |

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

The table below shows a reconciliation of regulatory own funds in Table 2 above to the balance sheet in the audited financial statements, where assets and liabilities have been broken down by asset and liability classes respectively.

**Table 3: OF2 - Reconciliation of regulatory own funds to the audited financial statements**

|                             |  | a   | b                                       | c                               |
|-----------------------------|--|---|---|---------------------------------|
|                             |  | Balance sheet as in published/audited financial statements (£000) | Under regulatory scope of consolidation | Cross reference to template OF1 |
|                             |  | As at year ending 31 December 2023                                | As at year ending 31 December 2023      |                                 |
| <b>Assets</b>               |  |   |   |                                 |
| 1                           | Security deposits                              | 5,000   |   |                                 |
| 2                           | Debtors due within one year                    | 2,753   |   |                                 |
| 3                           | Cash and cash equivalents                      | 38,807  |   |                                 |
|                             | <b>Total Assets</b>                            | <b>46,560</b>   |   |                                 |
| <b>Liabilities</b>          |  |   |   |                                 |
| 1                           | Creditors: amounts falling due within one year | 11,838  |   |                                 |
|                             | <b>Total Liabilities</b>                       | <b>11,838</b>   |   |                                 |
| <b>Shareholders' Equity</b> |  |   |   |                                 |
| 1                           | Members' capital classified as equity          | 15,306  |   | Item 4                          |
| 2                           | Other reserves                                 | 19,415  |   | Item 8                          |
|                             | <b>Total Shareholders' equity</b>              | <b>34,721</b>   |   |                                 |

#### 4.3 Main features of own instruments issued by the firm

Members' interests are split by *Members' capital classified as equity* and *Other reserves*. All of which qualifies as CET1 capital.

Note 11 of the audited financial statements sets out the split of members' interests between the two partners of the firm, Northern Trust Equities Limited and The Northern Trust International Banking Corporation.



## 5 Own funds requirements

### 5.1 Own funds requirements

As a non-SNI MIFIDPRU investment firm, NTS LLP must maintain own funds that are at least equal to its own funds requirement at all times, with the own funds requirement being the highest of:

- The permanent minimum capital requirement of £750,000;
- The fixed overheads requirement (**FOR**); and
- The K-factor requirement (**KFR**).

NTS LLP's own funds requirement is equal to its FOR as this is greater than its KFR and permanent minimum capital requirement.

The NTS LLP own funds requirement as at 31 December 2023 is set out below:

**Table 4: OFR1 - MIFIDPRU 4.3 compliance**

| Own Funds Requirement item                      | £000         | £000         |
|---|--------------|--------------|
|   | 2023         | 2022         |
| <b>Permanent minimum capital requirement</b>    | <b>750</b>   | <b>750</b>   |
| <b>Fixed overheads requirement</b>              | <b>6,432</b> | <b>5,141</b> |
| Sum of K-AUM, K-CMH & K-ASA requirements        | 0            | 0            |
| Sum of K-COH & K-DTF requirements               | 437          | 429          |
| Sum of K-NPR, K-CMG, K-TCD & K-CON requirements | 0            | 0            |
| <b>Total KFR</b>                                | <b>437</b>   | <b>429</b>   |
| <b>Binding requirement</b>                      | <b>6,432</b> | <b>5,141</b> |

### 5.2 Approach to assessing adequacy of own funds

NTS LLP is required to comply with the Overall Financial Adequacy Rule (**OFAR**) which is defined as the following in the FCA's Handbook Chapter MIFIDPRU 7.4.7R:

*"A firm must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:*

- a) The firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and*
- b) The firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants."*

In order to ensure compliance with the OFAR, NTS LLP operates an ICARA process. The ICARA process is the collective term for the internal systems and controls that NTS LLP operates to identify and manage potential material harms that may arise from the operation of its business, and to ensure that its operations can be wound down in an orderly manner.

The ICARA is undertaken at least once every 12 months.

### 5.2.1 Business operations

The NTS LLP RMF identifies and assesses the material potential harms inherent within NTS LLP business operations and the extent that current processes and controls serve to mitigate the risk of harm occurring across clients, counterparties, the market and the firm itself. Where these harms cannot be mitigated fully, a further assessment has been completed against the adequacy of the calculated own funds requirement (Section 5.1 of this document).

This assessment is input into a statistical model which also considers all of the firm's previous loss history, probability and impact of the key risk scenarios used. The output of this is compared to the own funds requirement to assess the adequacy of the amount relative to the harm inherent in business operations. Where this process identifies an increased requirement above the calculated own funds requirement, additional own funds are held to mitigate the identified material potential harms.

Where this process identifies an increased requirement above the calculated own funds requirement, additional own funds are held to mitigate the identified material potential harms.

### 5.2.2 Wind-down

NTS LLP undertakes a wind-down planning process which ensures sufficient own funds are held to undertake an orderly wind-down in the rare event that one is required. This process covers the following:

- An assessment of the scenarios which may cause NTS LLP to wind down.
- Reporting of indicators of a wind-down scenario occurring.
- Assessment of harm to key stakeholders of NTS LLP winding down.
- Process to wind-down.

Based on the actions above, a quantitative assessment is done to determine the amount of own funds (and liquid assets) required to wind-down the business, minimising the risk of harm to the stakeholders identified as part of the assessment.

### 5.2.3 Key conclusions

As part of the ICARA process, NTS LLP has established its own funds threshold requirement (**OFTR**) and its liquid assets threshold requirement (**LATR**), which set out the minimum own funds and liquid assets required to be held by the firm to meet regulatory requirements.

Based on the ICARA, the NTS LLP Management Committee has determined that sufficient own funds and liquid assets are held to meet the OFTR and LATR and considers that NTS LLP complies with the OFAR.

## 6 Remuneration policy and practices

### 6.1 Qualitative disclosures

The NTC Human Capital and Compensation Committee (**HCCC**) is a committee of the Board of the parent company headquartered in Chicago IL, USA. The HCCC has primary responsibility for ensuring that compensation programs align with the organisation's philosophy and objectives, including oversight of the processes through which the company reviews its incentive plans within the context of business risk mitigation.

The HCCC consists of independent NTC non-executive directors and has Meridian Compensation Partners as its independent compensation consultant. The HCCC confers with its independent compensation consultant to ensure that decisions and actions are consistent with stockholders' long-term interests and compensation-related best practices within the financial services industry, including effective risk management within the compensation framework.

A UK-based EMEA Remuneration Governance Group (**ERGG**) operates to monitor and implement the EMEA regulatory compensation requirements and comprises the following individuals:

- Head of HR, International and Shared Services (chair);
- International Chief Finance Officer (**CFO**);
- International CRO;
- International Chief Compliance Officer; and
- Manager, Business Unit Risk, Northern Trust Asset Management.

The following standing attendees are also present:

- Regional Executive (President Northern Trust EMEA);
- Deputy General Counsel;
- Head of Compensation, EMEA; and
- Senior Regulatory Compensation Consultant, EMEA.

The ERGG has oversight over remuneration regulations across EMEA to ensure there is consistency and balance in the policies and guidelines adopted by the EMEA regulated entities.

NTC's Total Compensation Policy applies to all employees globally. An addendum specifically related to EU and UK requirements exists for all partners operating in the relevant regulated countries.

Employees whose professional activities have a material impact on a regulated entity's risk profile are classified as performing Material Risk Taker (**MRT**) roles and have been categorised as:

- **Senior Manager MRT** – Employees who are registered with the FCA/PRA as control functions and/or members of governing bodies and/or heads of significant business groups; and
- **Standard MRT** – Employees that could have the ability to impact the risk profile of NTS LLP; however these all operate within appropriate governance structures and under delegated authorised limits from Senior Managers.

For MRTs aligned to more than one NT Regulated Entity (i.e. Group MRT), a 'primary regulator' will be identified, and the full set of remuneration rules prescribed by that regulator will apply. Under IFPR, there is a requirement for the most stringent provision across all respective remuneration codes to be applied.

Remuneration design and structure at NTC focuses on all elements of total compensation and differentiation to avoid entitlement and to develop a high-performance culture. In addition to fixed remuneration, NTC offers variable remuneration which includes short-term and long-term incentives where appropriate. The HCCC reviews the Total Compensation Policy on an annual basis. Risk and Compliance employees have incentive awards funded from the Corporate Risk & Compliance pool and are not impacted by individual line of business funding.

At the start of the performance year, the NTC Board of Directors approves a Profit Plan which includes detail on projected performance outlook and competitive requirements for incentive compensation. The Profit Plan determination includes risk considerations including reserves for credit and operational losses and other risk assessments. The HCCC then reviews the initial cash incentive pool accrual at the corporate level based on a competitive target percentage range of the pre-tax income projections included in the Profit Plan.

The initial accrual level takes into consideration financial performance factors including affordability and risk considerations. The corporate cash incentive pool is funded based on the actual performance of the Corporation as measured by pre-tax income in early December, with the ability to add or claw funding back post-performance period when the actuals have been determined.

NTC's CRO participates in funding discussions that inform the recommendation to the HCCC of corporate pool funding level as well as Business Unit allocation. Corporate Risk Management has developed a process to track and consolidate risk events and key metrics for the plan year and this information is provided to Business Unit leaders and managers for incorporation in performance review and throughout the plan year. The CRO uses the Enterprise and Business Unit Risk Performance Scorecards and any known Significant Risk Outcomes to inform recommendations to the HCCC regarding any risk adjustments to the overall funding or business unit allocations. The CRO participates in quarterly discussions with the NTC CFO and Chief Human Resources Officer regarding the financial performance as well as consideration of risk factors such as credit loss reserves and operational losses. Once the incentive allocation to Business Units has been determined, the Business Unit President reviews financial performance and any risk factors to determine allocation of the incentive pool.

Annual review processes for all partners include performance expectations related to the monitoring and mitigation of risk. In completing the annual performance evaluation and compensation planning, managers receive information on how to incorporate appropriate performance expectations relative to the management of risk into the review process. As part of the annual salary review and incentive process, managers recommend specific total compensation reflecting their discretionary assessment of specific objective and subjective factors including performance against risk expectations.

When choosing appropriate measures for team and individual goals, these goals are aligned with those of the business. As these business and financial goals are achieved, partners are rewarded accordingly to reinforce the value of their contribution. To determine an individual's pay and incentive allocation, managers will take into consideration discretionary assessment of specific objective and subjective factors such as:

- Corporate and business unit performance;
- Performance within a standard risk expectation for all employees;
- Prior and expected individual performance and long-term impact; and
- Teamwork and individual contributions.

All employees within NTC are eligible for an incentive payment subject to performance. Performance factors can result in no increase to base pay and/or a zero cash incentive award for a specific performance period.

The short-term incentive (**STI**) and long-term incentive (**LTI**) mix was determined for partners according to a fixed structure based on the total incentive award amount. Incentive splits for MRTs and other regulated roles was administered according to regulatory requirements. Incentive compensation for MRTs is also subject to the NTC Policy on Recoupment and UK and Luxembourg Malus and Clawback Policy. The purpose of these policies is to ensure that there is appropriate alignment between risk and individual reward, to discourage excessive risk-taking, short-term thinking and encourage more effective risk management. Malus and clawback may be applied to reflect adjustments for performance.

Under the IFPR, there is no prescriptive bonus cap. As NTS LLP is classified as a non-SNI firm, there is a requirement to set an appropriate ratio between fixed and variable pay for MRTs. As these regulations do not specify what makes an ‘appropriate’ ratio, firms are left to use appropriate discretion.

The in-scope legal entity(s) RemCos have determined three separate variable to fixed pay ratios that will apply to MRTs subject to the IFPR MIFIDPRU Remuneration Code.

The following documents are designed to comply with all the requirements of the Remuneration Code:

- Guarantees & Buy-out Guidelines;
- Retention & Recognition Award Guidelines;
- Northern Trust Policy on Recoupment;
- Total Compensation Policy Statement; and
- Malus and Clawback Policy.

## 6.2 Quantitative disclosures

Fixed remuneration consists of base salaries, benefits, pension and cash allowances. Variable remuneration can consist of a combination of STI (Cash) and LTI (Restricted Stock Units). Off-cycle awards such as guarantee, buy-out, retention, recognition and severance awards also form part of variable remuneration for bonus cap calculations. Where applicable, these awards have been included as part of aggregate variable remuneration.

The following disclosures relate to NTS LLP MRTs and all other staff. In 2023, there were nineteen MRTs. The aggregate remuneration details in respect of these MRTs and all other staff is shown below.

**Table 5: NTS LLP staff remuneration breakdown**

| Role                           | Fixed remuneration (£m) | Variable remuneration (£m) | Total remuneration (£m) |
|--------------------------------|-------------------------|----------------------------|-------------------------|
| Senior Management <sup>3</sup> | 3.3                     | 2.4                        | 5.8                     |
| Other MRTs                     | 2.1                     | 1.2                        | 3.2                     |
| All other staff                | 2.9                     | 1.6                        | 4.5                     |
| <b>Total</b>                   | <b>8.3</b>              | <b>5.2</b>                 | <b>13.5</b>             |

There were no amounts of guaranteed variable remuneration rewards made during the financial year to Senior Management and MRTs.

<sup>3</sup> For the purposes of these MIFIDPRU disclosures, ‘Senior Management’ includes those categorised as Senior Manager MRTs

One severance payment was made during the financial year to an MRT.

With respect to severance payments paid out in 2023, NTS LLP has used the exemption set out in MIFIDPRU 8.6.8R(7) to stop the identification of the particular MRT and to preserve the confidential nature of the individual's remuneration.

The information above includes remuneration for MRTs whose responsibilities also cover:

- Northern Trust Global Investments Limited: seven employees;
- Northern Trust Investor Services Limited: eight employees;
- Northern Trust Global Services SE<sup>4</sup>: eight employees; and
- The Northern Trust Corporation London Branch: eleven employees.

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<sup>4</sup> Includes Northern Trust Global Services SE branches.