



Legal & General Investment Management Ltd MIFIDPRU Disclosure 2022

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1. Introduction

1.1 Background and purpose

Legal & General Investment Management Limited (“LGIML” or “the Company”) is an investment management firm incorporated in England and Wales and regulated by the Financial Conduct Authority (FCA) as a MiFID (Markets in Financial Instruments Directive) Investment Firm.

LGIML is a wholly owned subsidiary of Legal & General Investment Management (Holdings) Ltd (“LGIMH”), which along with LGIMH’s other subsidiaries are referred to collectively in this document as the LGIM Division.

LGIMH is the holding company for the LGIM Division and is a wholly owned subsidiary of Legal & General Group Plc (the “Group”).

The FCA has recently implemented a new Investment Firms Prudential Regime (“IFPR”), which came into effect from 1 January 2022. This introduced a new Prudential Sourcebook for MiFID Investment Firms (“MIFIDPRU”). LGIML must comply with the rules set out within MIFIDPRU. The purpose of IFPR is to ensure that investment firms are financially resilient, and that they do not create harm or fail in a disorderly manner that brings wider disruption to investors or markets in which they operate. Background information relating to the changes introduced by the new regulatory regime can be found in section 1.2 below.

IFPR introduces amended disclosure requirements, which replace historical disclosure obligations under the previous prudential regime. The purpose of the amended disclosure requirements under the rules set out in MIFIDPRU 8 is to enable the business model and potential risk of harm posed by each investment firm to be better understood by its stakeholders. Firms are required to publicly disclose, at least annually, their policies for managing risk, details of their regulatory capital requirements and supporting capital resources and information around their employee remuneration policies. These disclosures are designed to promote market discipline by providing market participants with key information on each firm’s risk exposures and risk management processes.

The Company does not meet the FCA definition of a small and non-interconnected investment firm (“SNI”) as set out in the MIFIDPRU rules and is therefore required to provide additional disclosure around governance arrangements, remuneration and investment policy as a non-SNI in line with MIFIDPRU 8 requirements.

As this is the first year that disclosures are being prepared under the new regulatory regime, comparative quantitative data is unavailable and has not been provided; however, this will be disclosed in future years.

These disclosures are not required to be subject to an independent external audit.

1.2 IFPR regulatory framework

The Investment Firms Directive (“IFD”) was implemented across the EU from June 2021, providing a new prudential regime for investment firms. The IFD superseded existing prudential rules set out in the Capital Requirements Directive (“CRD”). It recognised that CRD was designed to apply to banking organisations, resulting in many of its requirements having limited relevance to investment management companies.

The UK was heavily involved in the development of the IFD prior to its exit from the European Union and has implemented a similar regime in the UK, IFPR, which came into force from 1 January 2022. Whilst UK-CRD will continue to apply to more complex firms, most investment firms including LGIML are captured by IFPR and now cease to be regulated under the previous rule set.

The rules relating to the new regime are largely held within a new prudential sourcebook, MIFIDPRU, which replaces previous rules set out in the IFPRU and BIPRU sourcebooks.

The new prudential regime brings a number of fundamental changes, including:

- new own funds requirements, including the introduction of a new K-factor approach to replace existing credit and market risk assessments. This change in approach is intended to place a greater focus on areas of operational risk and introduces the concept of “harms” that could be caused by the activities of investment management firms;
- a new approach for an investment firm’s internal risk and prudential assessments, and the supervision of those requirements, which are now considered as part of an ICARA (Internal Capital and Risk Assessment) process;
- the introduction of new liquidity requirements and obligations for all investment firms;
- new governance and committee requirements; and
- a new remuneration code.

2. Governance Arrangements

2.1 Governance framework

LGIML is a direct subsidiary of LGIMH and, as such, the governance arrangements of LGIML sit within the wider governance framework of the LGIM Division.

The LGIM Division has a robust corporate governance framework in place that brings authority and accountability, enables effective decision-making, and allows oversight of the implementation of the LGIM Division's strategic objectives and risk framework.

In determining its governance requirements, the LGIM Division takes account of relevant legal and regulatory requirements and in particular:

- The governance standards and practices set by Group, including the UK Corporate Governance Code as appropriate;
- The FCA Asset Management Market Study (the "AMMS"), and resulting amendments to the Collective Investment Schemes sourcebook ("COLL") rules;
- The FCA's Senior Management Arrangements, Systems and Controls ("SYSC") rules relating to senior personnel who effectively direct business;
- The Irish Funds Corporate Governance Code for Collective Investment Schemes and Management Companies (the "Irish Code"); and
- The Irish Fund Management Companies Guidance ("CP86").

2.2 Legal Structure

The LGIM Division comprises unregulated holding companies, companies that provide products to LGIM Division customers, companies that undertake investment management, and investment funds incorporated as fund companies or trust schemes.

LGIMH acts as the controller of the LGIMH group of companies, monitoring and overseeing the performance of the LGIM Division. The LGIMH Board is responsible to its shareholder, the Group, for promoting the long-term success of LGIMH and, in particular, for setting the LGIM Division's strategic aims, monitoring management's performance against those strategic aims, setting the risk appetite, ensuring that effective controls are in place and that the LGIM Division is adequately resourced. The LGIMH Board supports the culture and values of the LGIM Division.

LGIML is a direct subsidiary of LGIMH.

2.3 The LGIML Board

LGIML is an investment manager within the LGIM Division. The Company is a UK MiFID firm responsible for investment management of internal and external clients' funds under investment management agreements. It provides investment expertise across a range of asset classes and undertakes distribution and marketing in the UK, Europe, the Middle East and Asia.

The LGIML Board is the governing body of the firm, having overall responsibility for approving and overseeing the firm's strategic objectives, risk strategy and internal governance.

The LGIML Board meets quarterly, with additional meetings held as required to meet business needs. The LGIML Board has a schedule of regular items which it discusses, including management information on the performance and operations of the Company. A schedule of matters reserved for the LGIML Board is in place and is reviewed annually. A conflicts of interest register is maintained and reviewed by the LGIML Board.

As appropriate, the LGIML Board allocates responsibility for the conduct of the business to Senior Managers, who collectively form the management body. The management body are allocated specific responsibilities in line with their Senior Management Functions (“SMF”), with the allocation of these responsibilities including appropriate segregation of duties in accordance with the Senior Management and Certification Regime.

The directors of LGIML do not hold any other directorships within the scope of MIFIDPRU 8.3.1R(2).

2.4 Committee Structure

As is standard practice, the LGIM Division uses a framework of dedicated committees to leverage the specific talents, skills and knowledge of individual members to inform and educate the full boards of areas of particular focus. A framework of formal governance committees allows for efficient oversight of more complex and detailed issues, as well as increasing accountability.

A committee will be empowered through one of two main delegated authorities: as a committee of the board; or as an executive committee. Board committees will perform oversight and control functions in respect of the LGIMH legal entity framework and may have delegations from several entities. Executive committees are established under the authority of the LGIM Division CEO, the primary forum of which is the LGIM Executive Committee, with further sub-forums delegated responsibility and accountability for specific areas. All committees have formal terms of reference, which define their purpose, scope and authority.

Four of the LGIM Division’s committees are comprised of majority independent non-executive directors: Risk Committee; Audit Committee; Investment Stewardship Committee; and Conflicts of Interest Committee. The latter’s purpose is to provide independent oversight of the LGIM Division’s identification, prevention, management and disclosure of actual and potential conflicts of interest.

The LGIMH Risk Committee has delegated authority to provide oversight of the LGIM Division’s Risk Framework, acceptable risk taking, and its risk management policies and procedures. As such, a modification has been granted by the FCA to LGIML to the requirement at MIFIDPRU 7.3.1R.

In certain circumstances the LGIM Division may leverage the wider Group-level committees. This Group wide framework serves to ensure Legal & General’s purpose is aligned across all divisions and the LGIM Division benefits from an effective Group governance structure. This includes the use of the Group Remuneration and Nomination Committees, with the latter also granted a modification by the FCA to the requirements in MIFIDPRU 7.3. Further information concerning the activities of the Group Remuneration Committee is included in section 6.

2.5 Diversity & Inclusion

The LGIML Board Diversity and Inclusion Policy (the “D&I Policy”) is a Group level policy which is adopted, as appropriate, throughout the Group. The LGIML Board adopts the D&I Policy on an annual basis. The D&I Policy advocates Legal & General’s ethos to build an inclusive culture that celebrates diversity and creates fair opportunities for everyone. As part of this, the Group believes that it is important for its boards to have a broader range of insights and perspectives to help them make better decisions as a business and create an inclusive culture for their people.

The D&I Policy identifies key areas for company boards in driving diversity and inclusion across the Group, one of which is building a diverse and inclusive board. This articulates the responsibility to develop and sustain a panel of board members that are diverse and are reflective of Legal & General’s people as well as the businesses and communities the organisation serves.

The D&I Policy supports the FTSE Women Leaders Review (Hampton-Alexander) voluntary targets for 40% board positions to be held by women by the end of 2025 and for FTSE350 companies to have a woman hold the Chair or Senior Independent Director position. The LGIML Board composition has 66% female representation, achieving the Group’s objective. Further, the independent director Chair role at LGIMH level is held by a woman.

The Group is committed to improving the representation of minority ethnicities on its boards and supports the recommendations of the Parker Review which set a target for the appointment of at least one person of colour to the board by 2021. This has been achieved at Group level and will be taken into consideration for all future board appointments.

3. Risk Management Objectives and Policies

3.1 Business strategy and the potential for harm

The LGIM Division has set out its ambition to grow profits in line with the dividend policy of the Group, absent market shocks. As a key component of the LGIM Division, LGIML aims to support the LGIM Division in growing assets under management across a broad range of product lines, and will continue to diversify by client, channel and geography, aiming to create a better future through responsible investing.

Through pursuit of its strategy, there is potential to cause harm where processes, systems and controls do not operate as intended for key stakeholders:

- Harm to client – covers risks posed by the Company as it carries out its services and responsibilities, which could negatively impact clients.
- Harm to market – covers the impact the Company could have on the markets in which it operates, and on those counterparties it trades with, due to sub-optimal or erroneous practices.
- Harm to firm – covers risks to the Company's solvency from its trading activity, market participation and exposure to financial risk (e.g. counterparty risk). While the primary impact of crystallised risk is on the firm itself, its shareholders and its counterparties and creditors, a deterioration in the Company's financial standing could also lead to increased risks to its clients and/or the wider market.

Such harms could occur through an imbalance in the strategy between the pace of growth and change, and operations required to support the business in managing its risks. The LGIM Division reduces the risk of harms crystallising through various risk management activities, including:

- governing policies, frameworks and control reviews;
- governance committees reviewing its risks and management information on the business;
- measurement of the crystallisation of actual risks through its risk appetite statement;
- an annually assessed change budget which targets system and process improvements alongside mandatory changes.

In addition, LGIML seeks to hold sufficient capital and liquid resources on an ongoing basis to ensure that it has the financial resources in place to fund realised harms. This is covered in more detail in section 5.4.

3.2 Risk management framework

The LGIM Division employs an overarching Risk Management Framework. The framework comprises a set of policies, processes, and activities that together describe the approach to managing the risk of harm. The Risk Management Framework is supported by more detailed frameworks covering specific types of risk, including the Operational Risk Framework, Corporate Financial Risk Framework, Counterparty Credit Risk Framework and Compliance Frameworks and associated policies. The LGIM Division maintains specific policies to cover the management of key risk types including liquidity risk

and credit risk, including concentration risk. The LGIM Division also operates in line with various Group level risk management policies.

The principal objectives of the Risk Management Framework are:

- to establish a foundation for the identification, assessment, monitoring, management control and reporting of the risk of harm to clients, markets, and the firm; and
- to provide a robust system of internal controls aimed at mitigating the risk of harm.

The Risk Management Framework is designed to be:

- responsive to changes in key business objectives and principal risks;
- able to facilitate reporting on key risks and effectiveness of the management of risk and internal controls for governance and external stakeholders;
- consistent with the risk management principles and requirements established by regulators; and
- owned, reviewed, and approved by the LGIMH Board and senior managers annually, and implemented by management within the LGIM Division, upon whom responsibility for undertaking risk management and operating the systems of internal controls falls.

LGIML operates within the LGIM Division's Risk Management Framework, allowing it to identify, measure, monitor, manage and report the risks that it could be exposed to, including the categories of risks addressed by MIFIDPRU 4, MIFIDPRU 5 and MIFIDPRU 6.

3.3 A 'risk aware' culture

The Group fosters a risk aware culture and relies on this culture and the behaviours it delivers within the business for the risk framework to operate successfully. The Group's risk aware culture is based upon the following principles:

- Openness and transparency in how decisions are made and risks managed;
- Significant decisions are aligned with strategy, capital targets, and expected returns, whilst considering the effects on the Group's reputation and customers;
- Individuals with risk taking authorities act as a 'prudent person', and consider the impact of risk on the entire Group;
- Managers own and manage the risks associated with the activities they are responsible for, and must aim to manage these without process errors;
- Risk events are reported and addressed in good time, as it is recognised that no system of control is fail-safe;
- Individuals make decisions within delegated authorities and management committees facilitate informed decision making on more complex matters; and
- Risk committees are established as forums for the review and challenge of how risks are identified and managed, and for the agreement of risk appetite parameters.

3.4 Risk management structure

The LGIM Division's risk governance framework is based on a three lines of defence model, whereby:

- **1st line:** Business managers identify and manage risks;
- **2nd line:** The Chief Risk Officer (CRO), supporting teams and risk committees oversee and challenge the management of risk; and
- **3rd line:** The Group's internal audit function provides independent assurance that risks are effectively managed and that appropriate oversight exists.

2nd line of defence

The LGIM Division's CRO is responsible for the design and oversight of the LGIM Division's risk and compliance frameworks. The CRO team is structured as follows:



The Compliance team advises and reports to senior management on regulatory, conduct and financial crime risk. It provides appropriate oversight, direction and guidance to promote high standards of compliance with the regulatory system in every jurisdiction in which the LGIM Division operates and seeks consistency in compliance systems and controls globally.

The Operational Risk team supports the identification and management of operational risks providing the framework, tools, advice, and support risk owners need. The team also provides oversight, challenge and generates 'opinions' on the effectiveness of risk management and the framework itself. The team acts as the guardian of the Risk Management Framework, although LGIML also seeks to embed risk management practically into business processes and governance. In addition, the team supports the reporting process of risk management issues.

The Investment Risk team provides oversight of LGIML funds and mandates to ensure that risk exposure is in line with expectations. This is achieved through limit monitoring, risk breakdown analysis, stress testing and engagement and challenge with the desks where appropriate.

The Financial Risk team is responsible for the oversight of financial risks to the corporate entities within the LGIM Division. The team also oversees counterparty credit risk across the LGIM Division, including both exposures to credit and concentration risk within its corporate entities and funds.

The IT and Information Security Risk team provides oversight for IT risk, information security, and data privacy frameworks. Its frameworks support the business in their aim to safely realise benefits from technology by limiting the occurrence and business impacts of adverse events arising from information security threats, the use and change of technology, and processing of personal information.

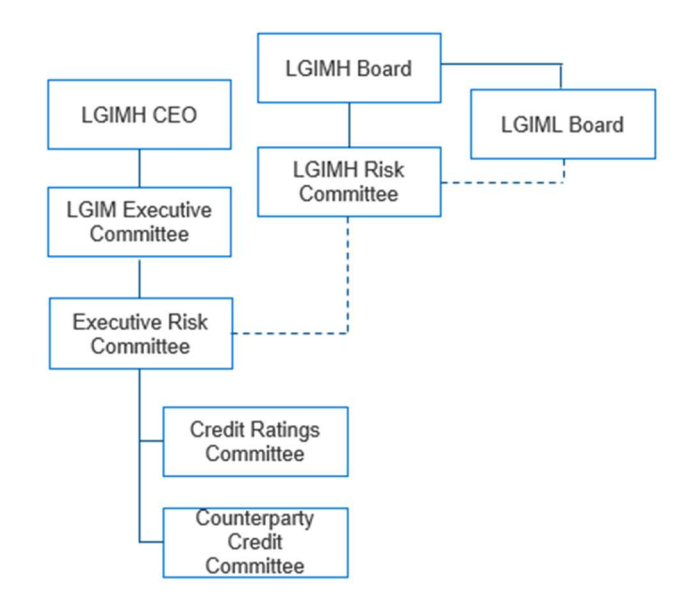
The Credit Ratings team assesses the creditworthiness of mainly private placement direct investments considered by the Real Assets team in the LGIM Division. It translates its analysis into a rating scale, like rating agencies' scales, to allow for ease of comparison in the investment selection process and to help determine the optimum risk/reward level for each transaction.

3rd line of defence

The LGIM Division's internal audit team is part of a Group-wide internal audit function which is headed by the Group Chief Internal Auditor. The team undertakes regular audits to review both ongoing business processes and programmes of change. Activities of the internal audit team are overseen by the LGIMH Audit Committee.

3.5 Risk committees

The following diagram outlines the structure of the LGIM Division's risk management committees:



The LGIM Executive Committee (Exco) is established under the authority of the LGIM Division's CEO. Its main responsibilities relate to:

- planning, objectives and strategy;
- operations and performance;
- risk and internal control; and
- people and culture.

The Executive Risk Committee (ERC) is established as a sub-committee of the Exco. It is responsible for identifying and assessing the risks and regulatory obligations that the LGIM Division faces in implementing its business plan across all of its geographic locations. The ERC ensures that the LGIM Division has established appropriate risk management and compliance frameworks capable of addressing those risks and that responsibility and accountability for risk and compliance risk management rests with appropriate senior executive management. The Chair reports to the Exco and the LGIMH Risk Committee, a non-executive led governance forum, on key risk matters.

The purpose of the Credit Ratings Committee (CRC) is to maintain for private placement assets an internal ratings methodology and approach that is appropriate to the nature of the underlying assets and LGIML's role as an investment manager to its clients that hold these assets. This is achieved through reviewing its ratings methodology to ensure it is consistent with external ratings and that all non-rated assets within the LGIM Division funds are assigned an internal rating. The CRC will assess the main drivers of a transaction's credit quality and review and approve appropriate traded comparators for specific assets or asset classes.

The primary role of the Counterparty Credit Committee (CCC) is to ensure appropriate counterparty credit risk management across the LGIM Division and in its client funds by instigating effective review and challenge on credit risk management processes. It is responsible for ensuring that critical counterparty credit risks within LGIML (including concentration risks) are appropriately identified, assessed, managed, monitored and controlled, and that responsibility and accountability for risk and compliance management rests with the appropriate senior management. In addition, the CCC has the authority to assign credit ratings to counterparties in accordance with the LGIM Division's Counterparty Credit Risk Framework.

3.6 Risk appetite

LGIML's risk appetite is defined in the LGIM Division's Risk Appetite Statement, which is reviewed and approved at least annually by the LGIMH Board. It articulates the types and levels of risk that the LGIM Division is prepared to accept in order to achieve its stated goals. The statement and its associated metrics and tolerances combine to enable the LGIM Division to monitor and assess its performance against stated appetite thresholds and maintain an effective risk profile. The LGIM Division risk appetite statement has been developed in line with the requirements set out in the Legal & General Group Risk Management Policy.

The specific amount of risk LGIML is prepared to be exposed to is defined through tolerances. These are determined by considering the probability of real forecasted exposures and losses for each risk type where there is an appetite, and the quantum of those exposures. Tolerances are constraining and create quantitative limits, although for some metrics the tolerance thresholds are viewed as trigger points for management discussion as distinct from a breach of appetite.

The Risk Appetite Statement sets out three key risk categories which must be considered when identifying and assessing the risks in LGIML:

- Enterprise Risk – relates to the inherent factors that affect the delivery of the strategy, or transient/developing matters that require active senior management involvement to ensure they do not result in significant loss or reputational damage. Whilst the LGIM Division can seek to influence drivers to these risks or develop plans to limit their impact, the risks themselves cannot always be directly controlled. Risks in this category include product risk and climate change risk.
- Financial Risk – relates to those risks that may impact the financial stability, performance, or viability of the LGIM Division. These risks primarily relate to LGIML’s capital position, liquidity position and profitability. Financial risk arises in the shareholder assets held on the balance sheet by LGIML for risks such as credit, concentration, asset, liquidity, and group risk, and mainly impacts profit and losses for business risks.
- Operational Risk – relates to the potential for underperformance or loss from failed systems, processes, people, or external events. Operational risk is inherent in all LGIML products, activities, processes, and systems and is managed at every level of the business.

3.7 Ongoing assessment of risk management processes

The effectiveness of LGIML’s risk management and internal control environment is defined in terms of governance, risk management and internal control activities, codified by the Risk Management Framework.

An annual Risk Management and Internal Control Framework questionnaire is completed and provided to Group to ascertain how the LGIM Division complies with Group risk policies and control frameworks. The assessment is conducted with input from both 1st and 2nd lines and is used to determine the effectiveness of the implementation and operation of the internal control framework. This process involves review of risk-related policy compliance and current and target ratings against maturity/embeddedness criteria.

The output from the Risk Management and Internal Control Framework assessment is presented to ERC for review and approval before submission to Group. The 2022 assessment confirmed that LGIML’s risk management framework was well established with appropriate risk oversight.

4. Own Funds

The term “own funds” refers to the regulatory capital resources which an investment firm holds to ensure that it remains financially secure. Each firm should retain a sufficient level of own funds to allow it to absorb losses incurred as a result of business stress and to enable the firm to be wound down in an orderly manner, should this be required. The own funds disclosures presented below are made in line with the template requirement set out in MIFIDPRU 8.4 and MIFIDPRU 8 Annex 1.

4.1 Composition of regulatory own funds

As at 31 December 2022, to meet its regulatory obligations, LGIML held own funds of £224,962k. All own funds are held within common equity tier 1 capital and the composition is shown below:

Composition of regulatory own funds - OF1

	Item	Amount £k	Source based on reference letters of the balance sheet in the audited financial statements
1	OWN FUNDS	224,962	
2	TIER 1 CAPITAL	224,962	
3	COMMON EQUITY TIER 1 CAPITAL	224,962	
4	Fully paid up capital instruments	4,750	D
5	Share premium	-	
6	Retained earnings	220,212	E
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	-	
20	ADDITIONAL TIER 1 CAPITAL	-	Not applicable
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	-	
25	TIER 2 CAPITAL	-	Not applicable
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	-	

An extract from the audited financial statements showing the Company's statement of financial position (balance sheet), with relevant references as noted in the table above, can be found in Appendix 1.

4.2 Reconciliation of regulatory own funds to balance sheet

The table below reconciles the Company's regulatory own funds (see 4.1 above) to the statement of financial position (balance sheet) in the audited financial statements (Appendix 1):

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

	a	b	c
	Balance Sheet as in published/audited financial statements As at period end 31 Dec 22 £k	Under regulatory scope of consolidation As at period end 31 Dec 22 £k	Cross-reference to template OF1
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
1	Trade and other receivables	72,152	
2	Cash and cash equivalents	167,377	
3	Investments	249	
4	Total Assets	239,778	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
1	Trade and other payables	(7,415)	
2	Income tax payable	(7,401)	
3	Total Liabilities	(14,817)	
Shareholders' Equity			
1	Called up share capital	4,750	4
2	Retained earnings	220,212	6
3	Total Shareholders' Equity	224,962	1

As the Company has the same accounting and regulatory scope of consolidation, disclosure is only required under column a above, and column b has therefore been left blank.

4.3 Main features of own instruments issued

The main features of own funds instruments issued by the Company are:

- Share capital consists of fully paid ordinary shares of £1 each, with 4,750,000 shares in issuance (2021: 4,750,000). The original share capital has increased in tranches since the late 1980s, with the most recent tranche of £1.5m being issued in 2012.
- 100% of the called up share capital is owned by the immediate parent company, LGIMH, a company registered in England and Wales.
- A dividend of £Nil (2021: £50m) was paid during the year, which equates to a dividend of £Nil (2021: £10.53) per share.
- 100% of total shareholder's equity is recognised as regulatory own funds capital.
- Share capital and retained earnings have no specific terms and conditions attributed to them.

5. Own Funds Requirement

The MIFIDPRU rules set out the own funds requirement for each investment firm, being the minimum level of own funds that the investment firm is required to hold. MIFIDPRU 4.3 states that the Company must at all times maintain own funds so that they are at least equal to its own funds requirement.

As the Company is classed as a non-SNI MIFIDRU firm, the own funds requirement is the highest of:

	31 Dec 22 £k
Permanent minimum capital requirement	75
K-Factor requirement	55,358
Fixed overhead requirement	83,633
Own Funds Requirement	83,633

The Company held sufficient own funds throughout the year to cover this minimum regulatory obligation.

Including audited profits for the 2022 year, the Company held excess own funds of £141m over the regulatory own funds requirement as at 31 December 2022.

The three components of the own funds requirement are discussed further below:

5.1 Permanent minimum capital requirement

This is the initial capital required for authorisation by the FCA, which then applies on an on-going basis once a firm has been authorised as a MIFIDPRU investment firm. It is a fixed amount based on the permissions held for investment services and activities the Company undertakes.

5.2 K- Factor requirement

The purpose of the K-factor requirement is to align capital requirements to the level of risk posed by investment firms and the activities they undertake. There are 9 K-Factors, which are split into the 3 categories noted in section 3.1:

- Harm to Client
- Harm to Market
- Harm to Firm

The Harm to Market and Harm to Firm K-factor categories are largely only relevant for firms that trade on their own account and are therefore not generally applicable to the Company.

For many investment firms, including LGIML, Harm to Client will be the most material risk they need to manage, being the failure of the firm to carry out its services or operations correctly.

The K-Factor requirements are calculated on the first working day of each month, averaging business data over specified timeframes and applying a risk factor as noted in MIFIDPRU 4.

The K-Factor requirement for the Company as at 31 December 2022 is broken down as follows:

K-Factor Requirements:	31 Dec 22
	£k
K-AUM, K-CMH and K-ASA	51,723
K-COH and K-DTF	3,635
K-NPR, K-CMG, K-TCD and K-CON	-
Total K-Factor Requirement	55,358

A more detailed description of the various K-Factors can be found in Appendix 2.

5.3 Fixed Overhead Requirement (FOR)

The purpose of the FOR is to ensure that firms hold a minimum amount of capital to support an orderly wind-down. As determined by MIFIDPRU 4.5, the FOR equates to 3 months' worth of relevant expenditure. Relevant expenditure is the total expenditure before distribution of profits and firms may deduct certain items of variable expenditure such as staff bonuses, if fully discretionary.

The FOR is based on the annual expenditure reported in the most recent audited financial statements. When a material¹ increase to projected relevant expenditure is anticipated during the financial year, the FOR is recalculated based on the revised projected expense base and immediately becomes the requirement.

The Company's FOR disclosed above, has been calculated using the annual expenditure from the audited financial statements relating to the financial year ending 31 December 2022.

5.4 Approach to assessing the adequacy of own funds

The K-factor requirements and FOR, as determined above, establish the regulatory minimum level of own funds which the Company is required to hold. In addition, the Company also undertakes analysis to confirm that the level of own funds and liquid resources that it holds are sufficient to cover areas of potential harm that may result from its specific activities and business model.

The overall financial adequacy rule as set out in MIFIDPRU 7.4.7 requires that the Company must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that 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 the

¹ Material is defined by MIFIDPRU as a 30% or more increase in the firms projected relevant expenditure for the current year or an increase of £2m or more in the firms FOR based on the projected relevant expenditure for the current year.

firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

In line with the rules set out in MIFIDPRU 7, the Company has in place an ICARA process which seeks to identify all material harms that could result from the ongoing operation of the business, or from the winding-down of the business, and to establish the amount of capital and liquid assets required to cover those potential harms.

LGIML's risk management and control framework enables the identification, mitigation, and monitoring of risks to the business and consideration of potential harms to clients, the firm, and the wider financial markets. The ICARA process reflects the Company's risk management framework, incorporating assessment of its business model planning and forecasting, stress and scenario testing, recovery planning and wind-down planning.

Within the ICARA, risk-based capital and liquidity assessments are determined on a "1-in-200 year" basis, such that the internal capital and liquid assets threshold requirements are sufficient to ensure solvency and liquidity over a one-year time horizon with 99.5% confidence. The assessments are forward-looking in terms of expected business plans and risk exposures, although are prepared on the basis of the existing systems and controls framework, and as such do not take account of any future risk-mitigating management actions or any planned control improvements not yet implemented at the time of the assessment. The assessments are performed at entity level and also at the parent company (LGIMH) consolidated level.

The Company's board has set a capital coverage risk appetite aimed at ensuring that the amount of own funds held exceeds the higher of the assessed internal capital threshold requirement and the prescriptive own funds requirement, together with an additional margin for prudence.

The Company complies with the overall financial adequacy rule by regular monitoring of its capital and liquidity positions in comparison to the calculated threshold requirements, and by regular monitoring of risk exposures and associated metrics. This allows implementation of timely management action as and when appropriate to ensure continuing compliance, including updated assessments at least annually of threshold requirements to reflect emerging exposures and material changes in the business and risk and control environment.

The Company reviews the adequacy of the ICARA process at least once every 12 months, and (irrespective of the annual review) following any material change in the business model or operating model. Its governance structure provides significant oversight of the business and the ability to raise issues with relevant subject matter experts, and to discuss and implement appropriate management actions as and when required.

The ICARA risk-based assessment ascertains that the Company holds higher own funds than the own funds requirement. Throughout the year, the Company held a sufficient level of own funds and liquid resources to cover the threshold requirements calculated through its ICARA processes.

6. Remuneration Policy and Practices

LGIML has no direct employees, with all staff employed by other subsidiaries of the Group. Remuneration policies and practices are generally operated on a Group wide basis.

6.1 Group Remuneration Committee

The Group Remuneration Committee (“the Committee”) has responsibility for determining and approving the principles and parameters for the Group’s remuneration policy for all employees, managing the remuneration of executive directors and designated senior managers, and overseeing compliance with remuneration regulations that apply across parts of the Group.

The Committee determines the remuneration policy of the Group having regard to:

- the views of the Group’s shareholders and other stakeholders;
- the risk appetite of the Group;
- alignment to the Group’s long term strategic goals;
- the requirement that a significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance; and
- designed to promote the long-term success of the Group.

The Group Remuneration Committee is supported by the Reward Steering Committee (“RSC”), which helps review the implementation of the remuneration policy and set the framework within which incentive arrangements are normally reviewed and implemented, with a view to supporting business strategy, whilst acting within the Group’s risk appetite and within the relevant regulatory framework applying to remuneration.

A number of regulatory regimes impact the Group, all of which are taken into account in the remuneration policy. In particular, the policy is consistent with the way the Group integrates risks, including sustainability risks under applicable regulation.

The Committee has due regard to market competitiveness, internal relativities, individual and corporate performance when setting and reviewing remuneration. The Committee also has regard to the principles of good corporate governance, including but not limited to the UK Corporate Governance Code, the FCA Remuneration Code and guidelines laid down by the investor community.

The Committee undertakes a regular review of the adequacy and effectiveness of the remuneration policy to seek to ensure it is fully aligned with the Group’s long-term objectives.

The Committee receives a number of reports to assist it in its oversight of remuneration policy, including reports on risk and financial performance across the Group, company culture, including progress on key diversity goals, and progress against strategic climate goals.

In considering remuneration proposals, the Committee considers a report from the Group Chief Risk Officer which assesses the performance of the Group from a risk appetite perspective across a range of measures including:

- capital and earnings risks;
- prudential risk limits and tolerances;
- operational risk and internal control;
- conduct risk; and
- sustainability risks.

The Committee reserves appropriate discretions to adjust payments having regard to responsible and effective risk management.

The Committee receives regular updates on regulatory developments and general remuneration issues, as well as market and benchmarking data from its remuneration advisors to support its decisions.

During the year ending 31 December 2022, the Committee was made up of the following members:

- Lesley Knox;
- Philip Broadley;
- Henrietta Baldock;
- George Lewis;
- Ric Lewis;
- Tushar Morzaria (appointed June 2022); and
- Laura Wade-Gery (appointed October 2022).

PricewaterhouseCoopers was the independent adviser to the Committee in 2022.

6.2 Principles guiding remuneration policies and practice

The remuneration policy for all employees across the Group is built around a set of key principles designed to ensure that remuneration is fair, recognises performance, is competitive within our market, and rewards appropriately against risk appetite, promoting the right culture, values and behaviours, including a strong focus on our customers and sound risk management. The remuneration principles aim to be clear and simple, and strengthen the link between reward, exceptional performance, and balanced risk-taking, as well as emphasising the importance of collaboration.

Remuneration at Legal & General is made up of fixed pay (base pay, retirement and other benefits) and performance-related pay (consisting of annual bonuses, deferred awards and long-term incentives). Performance related pay is designed to reflect success against a range of performance measures and targets taking into account the businesses performance. Performance related pay accounts for a considerable proportion of total remuneration for the majority of Code Staff.

Annual bonuses

Annual bonuses are designed to reward financial and non-financial performance that supports the business strategy, taking into account the Group's risk appetite and personal contribution in the business context that it was delivered. Targets are specific, measurable, set at the beginning of the year and communicated to employees.

For Material Risk Takers in the control functions (Internal Audit, Regulatory Compliance and Risk), separate performance measures have been designed which exclude any direct linkage to financial performance.

Individual performance assessment is supported by a structured performance management framework. In reviewing an individual's performance against their objectives, the individual's approach to risk management (including the integration of sustainability risks) is considered when determining the overall level of bonus payout. The bonus policy allows for zero bonus payments to be made when appropriate.

Deferred bonus

Under the Group-wide deferral arrangements a significant proportion of the annual bonus for senior employees is deferred into Group shares over a three year period. The purpose of the deferral plan is to promote the sustainable long-term performance of the Group and to align the interests of senior management with the Group's shareholders.

Deferred awards for senior employees may be subject to forfeiture if the performance which led to a bonus being paid is found to be incorrect or in the event of personal misconduct. Annual incentive awards (including any deferred element) are subject to malus and clawback for Material Risk Takers.

6.3 Material Risk Takers

The Remuneration Committee has identified 48 Material Risk Takers with responsibilities relating to LGIML in the year ending 31 December 2022.

Identification of Material Risk Takers

The following groups of employees have been identified within the firms subject to the FCA Remuneration Code as meeting the criteria for Material Risk Takers, based on the guidance set out in SYSC 19G.5:

- Certain members of the Group Board and Group Executive Committee;
- Employees performing a Senior Management Function in relation to LGIML within the Legal & General Group;
- Members of key decision making committees in relation to LGIML;
- Individuals responsible for information technology and information security; and
- Key control function roles.

6.4 Design and structure of remuneration

Details on the individual components of remuneration are set out below.

6.4.1 Fixed Pay

Base pay

The Group aims to attract and retain key employees by paying base pay which delivers competitive total remuneration. Factors taken into account when determining salaries include:

- the individual's skills, experience and performance;
- scope of the role;
- external market data;
- pay and conditions elsewhere in the Group; and
- overall business performance.

As a member of the Living Wage Foundation, base pay is also set with reference to the Foundation's UK and London living wage levels.

Benefits

All UK employees of the Group have access to private medical insurance, life insurance, and a range of family-friendly policies (maternity, paternity, adoption and shared parental leave).

In addition, there are several wellbeing support packages including Unmind (a confidential mental health app), childcare and elderly care support.

Pension

All employees are given the opportunity to participate in a Group pension scheme. The pension opportunity offered to the majority of the UK Group workforce is 10% of base pay.

6.4.2 Variable performance related pay

Annual bonuses

The majority of the Group's employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities.

Annual bonuses are designed to reward financial and non-financial performance that supports the business strategy, taking into account the Group's risk appetite and personal contribution in the business context that it was delivered. Targets are specific, measurable, set at the beginning of the year and communicated to employees.

The Committee has ultimate discretion over all bonus plans and overall expenditure on annual bonuses is reviewed by the Committee at the end of each year taking into account the performance of the business.

Deferred bonus

Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years and are subject to malus and clawback. The purpose of the deferral plan is to promote the sustainable long-term performance of the Group and to align the interests of senior management with the Group's shareholders.

Deferred awards for senior employees may be subject to forfeiture if the performance which led to a bonus being paid is found to be incorrect or in the event of personal misconduct. Annual incentive awards (including any deferred element) are subject to malus and clawback for material risk takers. The Group reserves the right to adjust deferral levels for Material Risk Takers as deemed necessary to comply with regulatory requirements.

The majority of Material Risk Takers are required to defer a portion of their annual bonus into restricted shares in the Group or receive deferred cash aligned with the performance of a basket of the LGIM Division's funds, for a period of three years.

The proportion of variable remuneration deferred reflects the level of the position, regulatory requirements, and the total value of variable remuneration.

Share bonus plan ("SBP")

SBP is the main form of long term variable remuneration for senior roles below the Group Executive Committee level.

An employee will be considered for an SBP award based on their role and performance during the year. Awards may also be made on an exceptional basis to more junior roles.

Awards are made in the form of restricted shares (or nil-cost options or a conditional award of shares). In normal circumstances awards are subject to a 3 year vesting period.

Performance share plan ("PSP")

Participation in the PSP is offered to a small number of senior management each year in recognition of the strategic and influential role that they hold in terms of driving company performance, as well as their individual contribution.

PSP awards are conditional on the achievement of specific level of performance in respect of total shareholder return ("TSR") and Earnings Per Share ("EPS") growth. In addition vesting of awards is subject to an assessment of performance against Solvency II objectives and progress against long term ESG objectives. These measures are intended to ensure an alignment between reward and the interests of shareholders and provides a degree of risk management (TSR reflects both underlying financial performance and the market's assessment of the quality and sustainability of those earnings). The Committee may also exercise its discretion to scale back the vesting of awards if it was felt that the Group's financial performance did not justify the level of vesting (the Committee may not increase the award).

Participation in the plan for one year does not guarantee participation in future years.

6.4.3 Approach to risk adjustment

Legal & General's remuneration policy is designed to align with the risk appetite of the Group. Remuneration arrangements are intended to promote effective risk management and appropriate risk-taking and ensure the appropriate consideration of prudential, operational, reputational, conduct and sustainability risks.

All variable remuneration awards are subject to potential adjustment at a Group wide, divisional or individual level in line with the Group's risk adjustment policy. The policy allows for in-year adjustments, end of year adjustments or the application of malus and/or clawback.

In year adjustments may be applied on an individual basis based on issues raised through the Group's conduct risk referral process.

Group wide adjustments may be made based on:

- Assessment of Group's risk profile, taking into account;
 - Performance against the Group's risk appetite statement,
 - Response to emerging risks,
 - Management of core business risks
- Robustness of the risk framework and internal control;
- Regulatory perceptions and risk culture, including;
 - PRA perceptions of the Group's prudential risk
 - FCA perceptions of conduct risk management; and
 - Overall risk management culture

Divisional or team adjustments may be made based on:

- Performance against capital and earnings risk appetite
- Performance against prudential risk tolerances
- Operational and risk controls
- IT security
- Conduct
- Internal audit findings
- Sustainability risks

Malus and clawback

For Executive Directors and Code Staff cash awards, deferred bonus awards and long term incentive awards may be subject to malus and clawback. For all other employees any deferred bonus award or long term incentive award may be subject to malus and clawback.

In all cases up to 100% of an award may be subject to malus and clawback with awards being potentially subject to clawback for up to 4 years from the payment date.

Ex-post risk adjustments may be applied in the following circumstances:

- Financial misstatement
- Factual error in calculating payment/ vesting
- Personal misconduct

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31 December 2022

- A material failure of risk management
- Serious reputational damage
- A material downturn in performance
- Other circumstances that are similar in nature or effect.

Recruitment remuneration

The remuneration levels set for new recruits will normally be in line with the existing remuneration policy and guidelines.

In some instances new recruits may have accrued deferred remuneration which may be lost upon change of employment. Accordingly the Company may grant cash or share awards to compensate for awards forfeited upon leaving a previous employer, ensuring that they are no more generous than those being forfeited, and taking into consideration:

- The form of the award
- Any performance conditions
- The vesting profile; and
- Relevant regulatory requirements and guidance.

In the first performance year only, new recruits may also be offered a bonus assurance, in recognition of lost bonus opportunity with their previous employer in that year. Bonus assurances may be subject to performance conditions assessed on a case by case basis.

Severance pay

Any termination payments in lieu of notice would consist solely of base pay and the cost of providing benefits for the outstanding notice period. Any statutory requirements will be observed.

Eligibility for annual bonus, Share Bonus Plan (“SBP”) awards and Performance Share Plan (“PSP”) awards are governed by their respective plan rules, as summarised below:

- Annual Bonus – there is no automatic entitlement to an annual bonus in the year of cessation of employment. However, the Company may determine, at its discretion, that an individual will receive a bonus pro-rated for the period through to leaving based on targets and performance for the full year, and an assessment of overall business and personal performance.
- SBP – in the event that a participant is a ‘good leaver’ any outstanding unvested deferred awards will normally be released in accordance with the ordinary timescale. Exceptionally, the Company reserves the right to accelerate any vesting or payment, for example in the case of terminal illness.
- PSP – unless the Remuneration Committee determines otherwise, in the event that a participant is a ‘good leaver’ any unvested PSP awards will be pro-rated for the period through to leaving and vest based on targets and performance to the end of the performance period, with awards released at the normal times. Exceptionally, the Committee reserves the right to accelerate vesting or payment due, for example in the case of terminal illness

6.5 Quantitative disclosures

The tables below summarise remuneration for the year ending 31 December 2022 for LGIML’s senior management, other material risk takers and other staff. LGIML identified 48 material risk takers under SYSC 19G.5.

LGIM MIFIDPRU Disclosure

31 December 2022

	Senior management	Other material risk takers
Fixed pay (£m)	4.89	6.85
Variable pay (£m)	7.78	7.93
Total pay (£m)	12.67	14.78
Cash based variable pay	2.77	3.93
Share based variable pay	5.02	3.21
Share linked instruments	0.00	0.79
Deferred unvested remuneration as at 1 Jan 2022	19.60	12.22
Deferred remuneration awarded in 2022	5.86	4.24
Deferred remuneration reduced through performance adjustment	0.00	0.00
Deferred remuneration vesting in 2022	2.43	2.59
Deferred unvested remuneration unvested at 31 Dec 2022	20.41	12.95

	Senior management	Other material risk takers
Total amount of guaranteed variable awards made	-	-
Number of material risk takers receiving guaranteed variable awards	-	-

	Senior management	Other material risk takers
Total amount of severance payments made	-	0.03
Number of material risk takers receiving severance payments	-	1
Highest severance payment awarded to a material risk taker	-	0.03

Where Code Staff individual remuneration is below the threshold set out in SYSC 19G.5.9 the following provisions are not applied and the LGIM Division's standard policies are applied.

- SYSC 19G.6.19R to SYSC 19G.6.21G (Shares, instruments and alternative arrangements);
- SYSC 19G.6.22R and SYSC 19G.6.23G (Retention policy);
- SYSC 19G.6.24R to SYSC 19G.6.29R (Deferral); and
- SYSC 19G.6.35R(2) (Discretionary pension benefits).

	Number of Exemptions	£m
Fixed Remuneration	7	1.20
Variable Remuneration	7	0.50

7. Investment Policy

The Investment Policy disclosures set out in this section relate to investments where the shares are traded on a regulated market and LGIML held and could exercise more than 5% of the voting rights during 2022. This is a standard template in accordance with MIFIDPRU 8.7.

IP1 - TEMPLATE ON PROPORTION OF VOTING RIGHTS		
Company name	LEI	Proportion of voting rights attached to shares held directly or indirectly in accordance with MIFIDPRU 8.7.4R ^[1]
Pod Point Group Holdings PLC	213800MY9U5MEDG21D89	14.64%
KSK Power Ventur PLC ^[2]	213800QWR8YTYA6H8562	11.83%
Malin Corp PLC ^[3]	635400JG4YSDU5U1YU17	11.59%
NCC Group PLC	213800DJCGZRB6523934	4.33%
NextEnergy Solar Fund Ltd	213800ZPHCBDDSQH5447	5.46%
Mitek Systems Inc	549300ABZAQ3R25XG118	6.12%
Foresight Solar Fund Ltd	213800NNT42FFIZB1T09	5.16%
Fastly Inc	549300E2FZC83FJ3H565	5.34%
The Gym Group	213800VCU9TBANZIN455	4.84%
OneSpan Inc	549300D67QDZG593UX89	5.10%
Darktrace PLC	213800PC5S5P9CSNFC89	5.67%
Capital & Counties Properties	549300TTXXZ1SHUI0D54	3.69%
Fingerprint Cards AB	5493004YF5D7Z612Z822	0.06%
Severfield PLC	21380025AWPR781CY104	5.12%
Allot Ltd	5493008MLSB5KCVNRK06	0%

^[1] Shows percentage held at 31 Dec 2022; ^[2] Suspended from trading; ^[3] No voting record in system

IP2 Voting Behaviour

IP2.01 - TABLE ON THE DESCRIPTION OF VOTING BEHAVIOUR		
Row	Item	Value
1	Number of relevant companies in the scope of disclosure	15
2	Number of general meetings in the scope of disclosure during the past year	17 (14 AGMs; 3 EGMs)
3	Number of general meetings in the scope of disclosure in which the firm has voted during the past year	16 (13 AGMs; 3 EGMs)
4	Does the investment firm inform the company of negative votes prior to the general meeting? (Yes/No/Other – please explain)	There is no structured outreach program for all companies which informs them of our votes ahead of the meeting. However, occasionally we pre-declare votes on our website (and inform the affected company of this). We may also inform a company upon their proactive outreach and request for confirmation of our vote intentions ahead of the meeting.
5	On a consolidated basis, does the investment firm group possess a policy regarding conflicts of interests between relevant entities of the group? (Yes/No)	Yes
6	If yes, summary of this policy	https://www.lgim.com/conflicts

IP2.02 - TEMPLATE ON VOTING BEHAVIOUR			
Row	Item	Number	Percentage (of all resolutions)
1	General meetings resolutions:	231	
2	the firm has approved management's recommendation	205 (+8 non-voting resolutions)	92.2%
3	the firm has opposed management's recommendation	18	7.8%
4	in which the firm has abstained	0	0.0%
5	General meetings in which the firm has opposed at least one resolution	6	37.5%

IP2.03 - TEMPLATE ON VOTING BEHAVIOUR IN RESOLUTIONS BY THEME (number unless specified)

Row	Item	Voted for	Voted against	Abstained	Total
1	Voted resolutions by theme during the past year:				
2	Board structure	81	9	0	90
3	Executive remuneration	16	7	0	23
4	Auditors	21	1	0	22
5	Environment, social, governance not covered by rows 2-4 – Other ESG (e.g. political donations, short EGM notice)	10	0	0	10
6	Capital transactions (e.g. share issuances, share buy-backs, dividends)	48	1	0	49
7	External resolutions (e.g. shareholder proposals)	N/A	N/A	N/A	N/A
8	Other (e.g. Annual Report and Accounts, investment strategy, meeting technicalities)	29 + 8 non-voting	0	0	37
9	Percentage of all resolutions put forward by the administrative or management body that are approved by the firm	92.2% (91.9% if non-votes removed)			

8. Appendix 1 – Statement of Financial Position

LEGAL & GENERAL INVESTMENT MANAGEMENT LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 £m	2021 £m
Current assets			
A Trade and other receivables	10	72.2	92.9
B Cash and cash equivalents	11	167.4	134.4
C Investments		0.2	-
Total Current Assets		239.6	227.3
Total assets		239.8	227.3
Equity			
D Called up share capital	12	4.8	4.8
E Retained earnings		220.2	184.3
Total equity		225.0	189.1
Current liabilities			
F Trade and other payables	13	7.4	28.9
G Income tax payable	14	7.4	9.3
Total liabilities		14.8	38.2
Total equity and liabilities		239.8	227.3

The notes on pages 26 to 34 form an integral part of these financial statements.

The financial statements on pages 23 to 34 were approved by the board of directors and signed on its behalf by:

DocuSigned by:

ED2E8244CA5D457...
M S Scrimgeour

Director

13 April 2023

DocuSigned by:

B5A4F409579E48C...

S Laud

Director

13 April 2023

Legal & General Investment Management Limited
Registered in England and Wales
Company Number: 02091894

9. Appendix 2 – K-factors

Term	Harm	Explanation
K-ASA	Client	K-ASA (Assets Safeguarded and Administered) – is the K-factor requirement for the amount of own funds assigned against the risk of harm associated with the safeguarding and administering of a client’s financial instruments.
K-AUM	Client	K-AUM (Assets Under Management) is the K-factor requirement for the amount of own funds investment firms are required to hold against risks associated with managing assets for clients. It covers both assets managed on a discretionary portfolio management basis and assets under an ongoing non-discretionary advisory arrangement.
K-CMG	Market	K-CMG (Clearing Margin Given) is an alternative to K-NPR to provide for market risk for firms that deal on own account or execute for clients in the name of the investment firm. It is based on the total margins an investment firm is required to give to a clearing member and can only be used with the agreement of the FCA.
K-CMH	Client	K-CMH (Client Money Held) is designed to capture the risk of an investment firm causing potential harm to clients where it holds their money. It takes into account whether the funds are recorded on the investment firm’s own balance sheet or in third party accounts, and arrangements provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm.
K-COH	Client	K-COH (Client Orders Handled) is the K-factor own funds requirement designed to cover potential risks from both the execution of orders in the name of the client and the reception and transmission of client orders.
K-CON	Firm	K-CON (Concentration Risk) is an own funds requirement that only applies to exposures in the trading book for investment firms that deal on own account or execute for clients in the name of the investment firm. It seeks to provide additional own funds to manage concentration risk to a single counterparty or group of connected counterparties.
K-DTF	Firm	K-DTF (Daily Trading Flow) is an own funds requirement that applies to investment firms that are dealing on own account, including where executing client orders in the name of the investment firm. It is designed to capture operational risks related to the value of trading activity an investment firm conducts throughout each business day. It excludes the value of orders handled which are already captured by K-COH.
K-NPR	Market	K-NPR (Net Position Risk) is the K-factor that applies to firms that deal on own account or execute for clients in the name of the investment firm. It provides for market risk and is based on the market risk framework (standardised approach, or if applicable, internal models) of the Capital Requirements Regulation.
K-TCD	Firm	K-TCD (Trading Counterparty Default) is a K-factor own funds requirement that only applies to investment firms dealing on their own account or execute for clients in the name of the investment firm. It aims to capture risks from trading counterparties failing to meet their obligations to the investment firm.

